

INTERNATIONAL LABOUR OFFICE

STUDIES AND REPORTS

Series M (Social Insurance), No. 18

APPROACHES TO SOCIAL SECURITY

AN INTERNATIONAL SURVEY



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The I.L.O.

The International Labour Organisation is an intergovernmental agency, of which 66 countries are members. Representatives of Governments, of management and of labour organisations participate in its work. It was established in 1919 and entered into relationship with the United Nations as a Specialised Agency in 1946.

Its purpose is to promote social justice in all the countries of the world. To this end it collects and disseminates information about labour and social conditions, formulates international standards and supervises their national application. It also engages in operational activities and provides technical assistance in carrying out social and economic development programmes.

The machinery of the Organisation consists of—

The International Labour Conference, which is the supreme body of the Organisation. It acts as a world parliament for labour and social questions. National delegations to the annual meetings comprise four delegates, two representing the Government, one representing management, and one representing labour; each delegate speaks and votes independently, so that all points of view find full expression.

The Governing Body, composed of sixteen Government representatives, eight representatives of management and eight representatives of labour, which is the executive council of the Organisation.

The International Labour Office, which acts as a secretariat, an operational headquarters, a world information centre, and a publishing house. It is staffed by experts drawn from many different countries, whose knowledge, experience and advice are available to all nations which are Members of the Organisation. It has branch offices and correspondents in many countries.

The Conference adopts international labour standards which are formulated in special international treaties called *Conventions*, and in *Recommendations*. These are based on careful fact-finding and discussion. As a two-thirds majority of the Conference is required for their adoption, they represent the general agreement of informed world opinion. The decisions of the Conference are not automatically binding, but Governments must submit the Conference standards to their national legislatures. When the legislature accepts a Convention, the Government is bound to apply it.

On the operational side, the I.L.O. provides Governments with expert advice and technical assistance in matters connected with labour and social policy. For this purpose it has established in various parts of the world field offices which serve as centres for assistance to Governments in such matters as building up employment services, increasing productivity, the development of training facilities and the administration of social security programmes. The I.L.O. participates in operating the United Nations Expanded Programme of Technical Assistance.

The work of the Organisation also includes the holding of regional conferences, sessions of Industrial Committees to discuss the problems of particular industries on an international basis, and a variety of specialised technical meetings.

All these activities are closely co-ordinated with a view to fulfilment of the purpose for which the International Labour Organisation was created—the promotion of social justice and peace.

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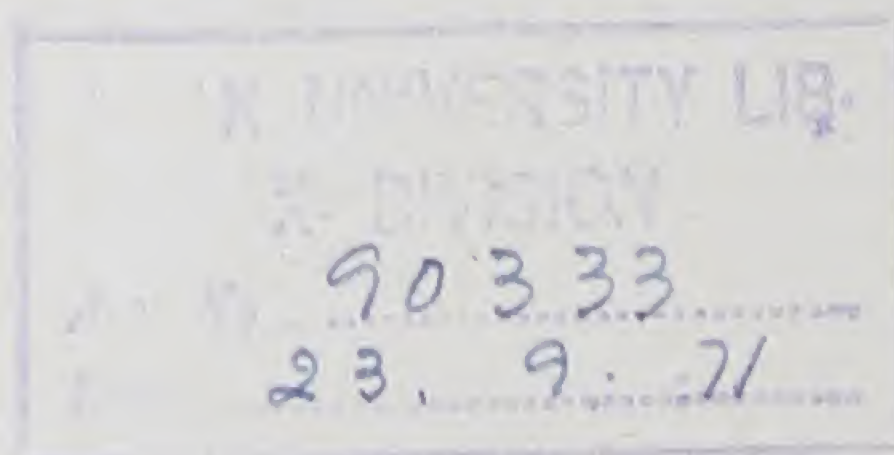
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PREFACE

This essay concerns one of the great purposes of the nations now fighting for freedom and for a civilisation based on respect for human personality. The idea of social security springs from the deep desire of men to free themselves from the fear of want. To realise this idea the causes of insecurity must be removed wherever possible, and the individual must be assured of that protection against the common risks of life which his own efforts do not avail to provide.

This essay is both an end and a beginning. For it rounds off the long series of studies that the International Labour Office has published on social insurance and on related schemes of social assistance, in an attempt to review succinctly the contributions which these modes of bearing social risks have made to social security. But it is intended also to prepare the way for the planning of a complete social security programme, in readiness for post-war reconstruction.

In keeping with its prefatory character, it supplies only raw material for such a programme. Before venturing into the future and imagining extensions and improvements, it is well to look back at the immediate and more distant past and to observe the landmarks. In such a survey speculation has no place. The sole object of this essay, then, was to discern, amid the variety of schemes that have been tried, the evolutionary movement directed by experience. The treatment therefore is purely descriptive, and, with hardly an exception, only schemes that have proved their practicability are referred to in this preliminary review. It is hoped, however, that an international survey, even with this limitation, may afford some guidance for future action in a vast and complex field.

The first chapter sums up the contribution of *social assistance*. Once free of the traditional limitations of poor relief, repressive and eleemosynary by turns, but always degrading, vague and unsure, social assistance has undergone a process of rationalisation, which has meant specialisation and benefits that can be counted upon and are preventive in intention. The principal branches of social assistance, already distinguished

from poor relief and administered apart from it, are passed in review : non-contributory pensions for the aged and for invalids ; mothers' pensions ; unemployment assistance ; medical assistance ; and, most recent of all, rehabilitation of the disabled.

The second chapter treats of *social insurance*, that is to say, compulsory mutual aid. Social insurance is situated between social assistance, which expresses the obligation of the community towards its needy members, and commercial insurance, based upon the equivalence of the premium paid by the individual and the indemnity promised to him. The strength of compulsory insurance resides in the association of the prospective beneficiaries and their employers in financial responsibility, in the non-lucrative and permanent character of its institutions, and in the specialisation of the latter for the service of benefits in cash and in kind and for preventive action. The branches of social insurance are considered with respect to their organisation, scope, benefits and finance, in the order mostly followed in their successive introduction : workmen's compensation, sickness insurance, pension insurance, unemployment insurance. Deeply rooted in most of continental Europe and in Great Britain, compulsory insurance has, in the interval between two World Wars, made rapid progress, though on somewhat different lines, in North and South America. Social insurance has made the principal contribution to social security.

The third chapter gives some examples of *social security systems*, resulting from the integration of social insurance and assistance. The unity of all the social risks — incapacity for work, unemployment, loss of breadwinner — is clearly realised, and the social security services, affording adequate protection of the mass of the workers and their families, are administered under a single directing agency. The necessary specialisation of the various services is found compatible with universality of coverage and efficacy of protection. First co-ordination and then integration — such is the progress towards comprehensive social security.

In order to give a broad view and show up the essentials, the exposition has been highly condensed and simplified. Thus pictured the scene gains in intelligibility. For the same reason, all references to sources, which in a study of comparative legislation are usually very numerous, have been omitted. The reader, it is true, has been deprived of the means of verification, but it seemed admissible so to lighten the text, in view of its chosen form as an essay and still more because recent foreign sources are difficult of access for most readers.

A single document has been reproduced as an appendix : the resolution of the Second Labour Conference of American States Members of the International Labour Organisation on the aims and functions of social insurance which was adopted after the start of the present war and deals in a coherent and articulated form with the social risks as a whole. It marks the stage reached by the evolution described in this essay, which takes account of legislation up to the end of 1941.

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INTRODUCTION

In the life of a man there are two stages of dependency — childhood and old age — and in the intervening years of adult life there are likely to occur spells during which he cannot earn his living. Instinct sees directly to the rearing of children, but nature's concern for other cases of dependency is less clear and more remote. Concern for the helpless, though precipitated in custom and later rationalised in law, has not, however, produced a steady development of institutions. The spread of political dominion has tended to outreach the area of effective social consciousness. Even to-day, the social implications of common citizenship are not yet fully recognised. But the auguries are favourable. The exigencies of the defence of the nation and civilisation impose a readjustment on the social order, and, once the inertia overcome and the elements set in motion, a new pattern can be framed in which the large but vague aspirations towards effective solidarity may find satisfaction along lines that science and experience are ready to trace.

It is relevant to call to mind the ancient and more modern ways by which communities have approached the problem of social security. For all of them remain in some form as separate institutions or as tributaries of the great stream of the present social security movement, in which they persist as recognisable influences. These traditional ways, moreover, exemplify principles which can be invoked as having strong claims to permanent validity.

The family, unit of social organisation, is the original cell of security, prototype and analogue of every future institution. The reciprocal obligations of the parent to support the child in infancy and of the child to support the parent in old age are represented in social insurance by the solidarity of generations. Paternal responsibility is illustrated across history in the relationship of the patron to his clients, the lord to his vassals, and the master to his servants; it survives to-day in a variety of legal obligations of the employer to protect his workers and in the manifold welfare schemes set up voluntarily by employers.

The family is the first line of defence, which can cope only with limited misfortune. In case of calamity, appeal is made to the larger group of the tribe or neighbours. The sense of responsibility of the larger group needs to be evoked and

sustained by religious sanction, and the charitable offerings of the faithful are dispensed by the priest.

The weakening of the religious sanction in protestant countries and the substitution of secular for ecclesiastical administration in their local communities led to the imposition of poor rates enforced by law and having as their conscious object more the maintenance of social peace than the salvation of the giver or the welfare of the recipient. In the schemes of poor relief evolved by some medieval cities, and in the first national poor laws, notably the English Act of 1601, are found the beginnings of rational and systematic treatment of the problem of poverty arising out of emergencies — a treatment in which repression was a principal consideration but which, ideally at least, included medical care, the provision of work and vocational training.

The notion of mutual aid, already implicit in the family relationship, acquires an independent existence in the societies of workers alike in status who agree to help one another in the misfortunes to which all are exposed. Such societies of equals, based as a rule on the exercise of the same occupation, were the earliest social insurance institutions, promising burial and sickness benefits in return for a crudely estimated contribution; what their arrangements lacked in precision, however, might in a small and closely knit society often be compensated by warmth of fellow-feeling.

The discovery of a law of mortality in the 17th century provided a mathematical basis for the development of life insurance as a commercial enterprise. The business of life insurance, because of the intimate and indispensable participation of mathematicians therein, had from the outset a distinctive character and a peculiar probity in its conduct. Its principles were mathematical justice and long-term solvency. The justice, to be sure, has little to do with social justice, for its norm is the exact equivalence between the premium and the risk. Actuarial technique, even with its life insurance concepts, was, however, essential for the design and management of the first schemes of compulsory social insurance.

At the opening of the present century these traditional approaches had given rise to two main currents in the social security movement: social assistance, representing the unilateral obligation of the community towards its dependent groups, and social insurance, based on compulsory mutual aid. Both approaches are needed in a complete programme of social security.

CHAPTER I

THE SOCIAL ASSISTANCE APPROACH

Introduction

A thousand years ago the relief of the poor within the dominions of Charlemagne was declared to be the responsibility of the parish. Each parish had to maintain its own poor — aged, infirm, workless, orphans — in so far as support from the family was lacking. This principle has remained the basis of statutory or customary poor relief in western Europe and the United States until our own time. From the sixteenth century onwards some larger cities began to classify their poor and to attempt the application of the rational and constructive methods proposed by Vives (1526). Instead of indiscriminate almsgiving, the Spanish humanist advocated social case-work, vocational training for the unemployed, boarding schools for abandoned children, separate hospitals for the sick and the insane, and sheltered employment for the blind and infirm. The English poor law of 1601 established for the first time a compulsory poor rate to finance parochial assistance, which was defined in terms that give simplified expression to the precepts of Vives: the parish was to apprentice poor children, to provide work for the able-bodied unemployed, maintaining a stock of raw materials for that purpose, and to grant necessary relief to persons incapable of work. National legislation of a similar character, systematising the customary responsibility of the commune, was introduced two centuries later in Denmark and Sweden. There are still many countries, representing every continent, in which the community has no legal obligation to relieve its poor.

If the care of the poor was not to be left to voluntary charity, but was to be placed on a compulsory, statutory basis, the parish or commune was the only body upon which it was practicable to lay the responsibility, as long as difficulties of communication and political disorder hindered the development of administrative

systems covering larger areas. That the poor should be cared for by their neighbours, who know them, seems a wise and natural policy for a simple society. But the village or small town may prove at times too exiguous a group to bear the risks with which it is charged, and is certainly unable to provide the different kinds of care appropriate to each type of need. Inequality of treatment as between richer and poorer units and inefficiency of method in the smaller ones are the characteristic defects of poor relief as financed and distributed by local authorities. They are only remedied by a policy of enlarging the area to be taxed and served by the assistance system, first by grouping communes together for assistance purposes, then by laying certain responsibilities on provinces or counties, and finally by associating the central government itself in the administration of public assistance. Experience shows that adequacy of assistance in quality and quantity has only been approached in proportion as State intervention has increased. State intervention in public assistance, still rare at the end of the nineteenth century, has grown more extensive and intensive in the twentieth. The constant policy of central governments generally has been to create special schemes of assistance for distinct types of need, or to encourage local governments to do so, granting subsidies conditional on the attainment of prescribed minimum standards of service.

It is these special schemes which are denoted by the term "social assistance", which differentiates them from the general scheme of poor relief. The individualistic, middle-class democracy of the nineteenth century had attempted to deal with pauperism as a sin by repressive measures, and receipt of statutory poor relief entailed, in several countries, loss of the right to vote until the relief was repaid; moreover, relief was, in principle, confined to persons who were actually destitute. The social assistance schemes, mostly established since 1900, give expression to a different attitude towards poverty. Their benefits do not involve any political disqualifications for the recipient, and they are granted, not only to the destitute, but also to any individual who has not the means to satisfy his needs according to a recognised standard. Certain schemes have evolved so far from poor relief that they provide benefits as of legal right to persons fulfilling prescribed conditions.

The creation of a series of social assistance schemes is gradually relieving the general scheme of poor relief of its responsibilities, vast in extent as they were vague in intent. In some countries where poor relief has never been a public

obligation, social assistance schemes have been developed until they cover almost every variety of basic needs. In others the early development of an extensive and many-sided social insurance system has forestalled the necessity of social assistance or cut short its elaboration. In others again private and ecclesiastical charity has, until ten or twenty years ago, been able to cope with many of the needs unmet by poor relief. But everywhere public opinion is demanding that a minimum standard of well-being be guaranteed to all, and the notion of what constitutes that minimum grows ever richer. As history unrolls, new horizons of possibility appear. On the one hand, the awareness of social solidarity grows into a conviction of obligation, and leads to the pooling, for social welfare, of an increasing proportion of the resources of individuals. On the other hand, discoveries in medicine and biology and the experiments of private philanthropy point out the directions and methods of advance.

Until about 1900, almost the only examples of social assistance were to be found in the field of medical care, and especially hospital care. Central and local governments co-operate to establish general and mental hospitals, accessible to all classes, and institutions for the care of physical and mental defectives; often too, public subsidies are granted to private charitable institutions. The first decade of the present century saw the introduction, as a humanitarian measure, of non-contributory old-age pensions in several countries. Immediately after the First World War, States began to concern themselves intensively with tuberculosis and venereal diseases, and with all aspects of maternal and child welfare. In the early thirties the universal economic depression forced the creation, in many countries, of State schemes of unemployment assistance.

Family welfare in all its forms assumes a prominent place in the social policy of Governments throughout the world. Until about 1920, the State concerned itself mainly with the mental and moral welfare of children — with education and with the guardianship of neglected or abandoned children — though in a few countries sickness insurance had already started to provide for the medical needs of mothers and children. In consequence of the loss of manpower suffered in the First World War and of a falling birth-rate, States began to interest themselves increasingly in population questions. At first legislation was concerned with maternity: preventive care of expectant mothers, obstetrical care, and assisting mothers to nurse their babies. Then medicine began to follow children

into the school, though the medical care of schoolchildren has preferably been taken through sickness insurance. Children are benefiting especially from the universal recognition of the importance of nutrition; it is usual to provide special nourishment for expectant and nursing mothers, and milk for infants, and, in an increasing number of countries, meals are being supplied to schoolchildren. Besides granting assistance in kind, many countries now encourage family life by cash assistance in a variety of forms: allowances to working women abstaining from work before and after childbirth, bounties on marriage and on the birth of each child, and family allowances, though these last are, in almost all instances, provided under contributory schemes.

The degree in which the administration of the various branches of social assistance is centralised appears to depend on three main factors: the simplicity and relative permanence of the need in question and of the assistance required to satisfy it, the ubiquity, magnitude and peculiarity of the need, justifying the setting up of special administrative machinery, and the acuteness of the national interest in securing that the need is satisfied according to a uniform standard. In general, the greater the degree of centralisation, the more the assistance in question acquires the character of a right, just because a national scheme implies uniformity and the award of assistance by rule of thumb. The small local authority, on the other hand, may well administer, though preferably with State help, those branches which involve great flexibility in the assistance granted, in which personal interest in the beneficiary and the enlistment of voluntary aid improve the quality of the assistance, and of which the cost per head of population is likely to vary little from one locality to another. Non-contributory pensions and unemployment assistance are always administered by the central government or under its control, but local authorities retain the administration of maternal and child welfare and of medical assistance.

A. Old-age and Invalidity Pensions

The non-contributory pension was originated by Denmark in 1891. The Danish constitution of 1849 had deprived persons who had received poor relief of the right to vote until they had repaid its cost. In consequence, the aged poor especially found themselves condemned to the disgrace of an inferior citizenship. The non-contributory pension was introduced in order to remedy

this disability, which had become repugnant to public sentiment. The pension, financed from taxation, was conceived of as a reward from society, and not as alms, and, in order to mark this distinction, it was laid down that the beneficiary must have certain qualifications, including good moral character, and that the pension was due as a right, enforceable, if denied, by appeal to a higher authority.

The desire to make dignified and positive provision for the necessitous aged was beginning to be felt towards the end of the nineteenth century in several other countries. The necessitous aged constitute a group which is eminently eligible for support by some body financially stronger than the commune. Two methods of making such provision were already exemplified in legislation: the Danish non-contributory pension and the German scheme of compulsory, subsidised, saving against old age. The advantages of the Danish plan were that its scope was universal, that it met the immediate needs of the existing aged, and that no machinery had to be set up to collect contributions and keep the accounts of contributors. These advantages proved decisive, both in that epoch and during the next twenty or thirty years, for those countries especially which were comparatively rich, had a large class of small farmers to consider, and were confining their attention at the time mainly to old age among the social risks. Non-contributory old-age pensions have been established in New Zealand (1898), Australia (1901-8), France (1905), Great Britain and Ireland (1908), and, after the First World War, in Uruguay (1919), Norway (1923) and South Africa (1928). Canada in 1927 introduced a Dominion subsidy to encourage provincial schemes, and by 1936 all the provinces had responded to the offer. In the United States the Social Security Act of 1935 gave similar encouragement to an old-age pension movement already existing in the States, and by 1937 all the States had in force schemes eligible for the federal subsidy.

Most of these countries also have instituted non-contributory pensions for the blind, a group for whom public sympathy is easily moved, whose number is limited, and whose disability can be ascertained and measured. A few only — France, Australia, Uruguay and, quite recently, New Zealand — have given to invalids the same pensions as to the aged and the blind.

In reality the claim of the invalids for public support is even stronger than that of the aged, but invalidity is necessarily a somewhat elastic concept, and there is a comprehensible fear

of abuse ; it may be noted that the countries which have granted invalidity pensions had no statutory poor relief.

Non-contributory pension schemes, it appears, represent a transitional phase in the evolution of social security methods. Except in Australia, Canada and South Africa, they have been overshadowed or even replaced by contributory schemes of later introduction. Thus, in the United States the federal scheme of old-age and survivors' insurance seems destined ultimately to cover the whole occupied population, and so to eliminate the necessity for the non-contributory pensions which at present take care in particular of agricultural and independent workers. Again, in France the establishment in 1928 of a general scheme of social insurance for employed persons has already left the non-contributory pension scheme with residual functions only. In Great Britain, since 1926, the non-contributory old-age pension has been granted automatically to persons covered by the social insurance system on reaching the age of 70, when it replaces the contributory pension awarded at 65 ; the non-contributory pension at 70, subject to conditions relating to nationality, residence and means, subsists in order to serve the diminishing number of persons who have no insurance record or not one which entitles them to the contributory pension.

In Denmark the non-contributory pension has, since 1933, been reserved for persons who contribute under the national sickness and invalidity insurance schemes, the scope of which is practically coextensive with the adult population. In New Zealand the process was somewhat similar : in 1938 a number of benefits, formerly non-contributory, and a series of new benefits were grouped together for administrative and financial purposes so as to constitute a national scheme of social security, to which all adults must contribute. In Norway, by an Act of 1936, the old-age pensions formerly paid by the communes individually out of their general tax revenue were made a national service, financed in part by a special contribution, levied on all adults. Neither in Denmark, New Zealand nor Norway did the conversion of old-age pensions from a non-contributory to a contributory basis radically affect these schemes in other respects. Consequently it is convenient for the purpose of description to mention the schemes of these countries in conjunction with those which have retained their non-contributory character, although they are also referred to in Chapter II as national insurance schemes.

The non-contributory pension schemes of the several countries vary in the degree in which they are differentiated

from poor relief. In some of the countries concerned, however, there is, as has been mentioned, no statutory poor relief, and in others it exists in an extremely defective form, so that any kind of positive provision for necessitous groups appears as an improvement on the former situation. However that may be, the most highly developed schemes, such as those of Australia, Canada, Denmark, Great Britain and New Zealand, offer the beneficiary important advantages over the poor relief typical of many countries. Receipt of the pension does not involve any diminution of civil rights; award of the pension is not conditional upon the absence of relatives legally liable and able to support the claimant; pensions are not confined to the destitute, and beneficiaries are not required to cede any property they may possess to the pension authority. The fundamental character of the non-contributory pension is that it is payable as of right and, in consequence, is granted to persons fulfilling statutory conditions and to such only. Implicit in the notion of the pension as a right are definiteness in the pension rate and a procedure of award which assures the claimant of full and fair consideration of his claim.

The pensionable age under most of the schemes is 65, but in Denmark and New Zealand, when their schemes were placed on a contributory basis, the age was reduced to 60. Blindness, in order to give rise to a pension, is usually defined as a visual defect which incapacitates for earning a living or leaves the person with less than a prescribed percentage of normal vision. The few schemes which provide invalidity pensions require that the claimant shall be permanently and totally incapacitated for work.

The qualifying conditions, as laid down in most of the laws, fall under three heads: political, moral, and economic.

The claimant must possess the nationality of the country which provides the pension, and he must have resided in its territory for a minimum number of years, *e.g.* 15 or 20; in most of the American States, he must have spent 5 out of the last 9 years in the territory of the State concerned. For a blind or invalidity pension a shorter period, such as five years, may be prescribed, or none at all if the disability appeared after residence in the country began.

The moral conditions give expression to the intention of the community to provide benefits only for individuals deemed to be worthy on the ground of their respectable life, to the exclusion of persons with a criminal record, husbands who have deserted their wives, drunkards, or persons who have tried to

live without working. These conditions are most prominent in the older laws and are more strict as regards the aged than the blind or invalid. Some of the laws, for example, those of Canada and South Africa, impose no moral conditions, while Great Britain after a few years dropped them as unpractical.

The economic condition consists in the means test. All non-contributory pension laws restrict their benefits to persons whose means — capital or income — do not exceed a prescribed amount, which, however, is never less than that deemed necessary for bare subsistence and is in some instances considerably more.

The rate of the pension depends primarily on the means of the claimant. The maximum rate, in most countries, appears to have been set at roughly one-quarter of the wage of an unskilled labourer in industry (in Great Britain rather less, in New Zealand rather more). For the purpose of assessing the pension, the means, expressed as income, of the claimant are up to a certain level disregarded, for example, up to an amount equal to the maximum pension itself, while certain kinds of means, such as benefits from a friendly society or the annual value of a house owned and inhabited by the claimant, may be disregarded altogether. Exemptions of this nature are especially liberal in the countries of the British Commonwealth and in Denmark, and offer a substantial encouragement to thrift. They were formerly rare in the laws of the American States, but a tendency to introduce this feature has been observable in the last few years. The pension is adjusted to the net means of the individual, *i.e.*, his means after deduction of the sums exempted. Two methods of adjustment are illustrated in the laws. The first, which alone conforms to the notion of the pension as a right, consists in adding to the net means, expressed as income, a pension exactly sufficient to bring up the total income to the prescribed maximum pension. The second, which is followed universally in the American laws, leaves the amount to be fixed at the discretion of the pension authority, subject to the rule that the total of the net means expressed as income and the pension may not exceed the maximum pension.

In Great Britain, as the result of an Act of 1940, a non-contributory supplement was introduced, destined to secure to the beneficiaries of old-age pensions, non-contributory and contributory alike, an income sufficient for subsistence. Even for the calculation of the supplement certain means are disregarded, though the exemptions are somewhat less generous than for the calculation of the pension.

Non-contributory pension schemes, as they still subsist in Australia, Canada, Ireland, France, Great Britain, South Africa, the United States, and Uruguay, are, by definition, financed solely from taxation. The central government always bears part of the cost, and in several instances (*e.g.*, Australia, Ireland, Great Britain, South Africa) the whole of it. The tendency is to increase the share of the central government and to reduce that of the local governments, since the former as a rule has greater powers of taxation and the poorer local governments are sometimes unable to raise their quota of the cost.

The allocation of financial responsibility determines that of administrative authority. The central government, by reason of its increasing financial participation, is enabled to impress on the local government higher standards of benefits and administrative efficiency, and, where it bears the whole cost, the essential administration is centrally directed and uniformly conducted throughout the national territory, the local authority retaining at most some advisory function. Administration by the central government through its own officers short-circuits the local bodies which would otherwise have intervened and which, in many instances, would be those responsible for poor relief: the separation of the administration of non-contributory pensions from that of poor relief is not the least important of the complex of features which are designed to dissociate the two services in the mind of the public. Whether the claim is investigated by a local officer of the central government or by an organ of the local government, the great majority of laws (including all those of the United States) provide for a right of appeal to a higher authority in case the claim is rejected.

B. Mothers' Pensions

A small number of countries which have established non-contributory pensions for the aged have adopted the same method in order to maintain families of young children which have no fathers to support them. The essential object of these schemes is to enable the mother (or foster-mother) to care properly for children at home, without having to go out to work. It might have been expected that the supreme interest of society in the welfare of its children would have prompted it to give priority to their economic needs over those of the aged, but in fact, except in the United States and Canada, this has nowhere been the case.

Mothers' pension laws began to spread across the American States and Canadian provinces some 25 years ago and are now in force in almost every part of these countries; they have also been adopted in New South Wales (1925) and New Zealand (1911), while less formal schemes exist in several other countries. They are to be distinguished from the State provision which is incidentally made for fatherless children, but not for their mother, in Denmark (1913), Sweden (1937), under the French national scheme to encourage large families (1923, amended 1939), and the national scheme of family allowances of the Australian Commonwealth (1941) — not to mention the contributory schemes of family allowances in Belgium and Spain.

The term "mothers' pensions" originated in the United States, but in that country, the description "aid to dependent children" has now been substituted; these benefits are called in Canada "mothers' allowances", in New South Wales "widows' pensions", and in New Zealand "widows' and orphans' benefit". These differences in title have some substantial significance, since in the United States assistance may be granted to any child which has lost the support of either parent, and in Canada payments are made only to mothers or foster-mothers with dependent children, while in New South Wales and New Zealand a childless widow, if she has attained the age of 50, is also entitled to a pension. The New Zealand scheme was placed on a contributory basis in 1938.

The majority of the laws grant the mother a pension, not only where she is a widow, but also where her husband is alive but not supporting his family because of invalidity or because he has deserted it and his obligation to maintain it cannot be enforced; if the husband is an invalid, however, it is often laid down that he must not be living at home but in the care of a hospital or asylum. If the child is an orphan, the pension is paid to the foster-mother. Thus, mothers' pensions meet part of the social problem arising from the invalidity of the breadwinner. The American laws, which have been generally improved by the federal subsidies and supervision introduced by the Social Security Act, allow the pension to be paid to any relative, male or female, who is looking after a child that has lost one of its parents, so that even the father might receive it, but in practice only about 3 per cent. of the children aided are living with their fathers and about 6 per cent. with relatives other than parents.

As for other non-contributory pensions, so for mothers' pensions, the claimant must fulfil political, moral and economic

conditions. The political conditions are, as one might expect, easy to fulfil. Except in Canada, it has become rare to require that the parents should possess the nationality of the country in which the pension is claimed. The period of residence by the mother in the territory concerned before claiming the pension varies from one to three years. The moral conditions are naturally strict: it is essential that the mother or foster-mother should be fit to have the care of her children. The economic conditions resemble in character those laid down for the non-contributory old-age pensions of the country in question.

The pension varies according to the means of the family and the number of dependent children. A child is deemed to be dependent under most of the laws until he reaches the age of 16. In New South Wales and New Zealand especially, the possession of means up to a certain level is compatible with the payment of the full pension. Provision is made for the mother in the pension awarded in respect of the first child, which is, as a rule, much larger than the addition in respect of each other child.

The patterns of administration and financing conform generally to that adopted for non-contributory old-age pensions and the same tendency is evident to transfer responsibility from local to central governments, when it is placed in the hands of the authority competent for child welfare. In Canada and the United States the pensioned family usually remains under the supervision of the welfare authority. This involves some restriction on the freedom of the mother, but it also implies a general responsibility for the authority to see that the needs of the family are in fact met by the pension. Many mothers' pension laws prescribe that the family shall be supplied gratuitously with medical and dental care. All the American laws, in conformity with the Social Security Act, and some others allow a claimant the right to appeal in case of refusal of a pension.

C. Unemployment Assistance

Special schemes for the relief of the unemployed were established in many countries during the years 1930-33. Some consisted wholly or mainly in the provision of work relief and others in the payment of allowances. Some were mere temporary expedients to meet a particular crisis, others have a permanent character. While all are administered separately from poor relief, yet the assistance granted under most of the schemes is discretionary and precarious: the right to work or reasonable maintenance is rarely recognised. Experience with

improvised schemes of unemployment relief, very costly while still inadequate in substance and in form, has spurred on the introduction of compulsory unemployment insurance in Canada, Norway, South Africa, and the United States. Great Britain and Ireland, however, recognising the need for unemployment assistance as a complement to insurance have established the former on a permanent, highly systematic basis. But the same experience has also given a great impetus to the long-range planning of public works, and to vocational training. In the belligerent countries unemployment has practically disappeared, and the problem is now to find additional labour and organise its distribution and training. The following notes relate to unemployment assistance schemes existing in the middle of 1939.

In the United States relief for the unemployed was provided by the Federal Government mainly in the form of employment at normal wages on public works, and millions of workers have been helped by this means. Canada and Sweden also have relied very largely on work relief, with cash assistance as a subsidiary alternative. All the Australian States instituted schemes under which the necessitous unemployed were offered spells of work relief and spells of sustenance allowance in rotation. On the other hand, Belgium, France, Great Britain, Ireland, and Switzerland have established schemes in which assistance is normally given in cash under conditions closely resembling those pertaining to unemployment insurance.

In those schemes in which work relief predominates, any person, whether normally a wage earner or not, may be assisted, while schemes providing assistance mainly in cash are, as a rule, limited to persons belonging to the employed class.

In France, for example, the claimant must have earned his living in some recent employment for at least six months. In Great Britain, the claimant must be insured under the compulsory pension insurance scheme, the scope of which is practically identical with that of the general and the agricultural unemployment insurance schemes combined, and in Belgium and Switzerland only persons already members of a voluntary insurance scheme are entitled to assistance: in these countries therefore the essential function of assistance is to provide for the continued maintenance of persons who have exhausted their insurance benefits.

All schemes of unemployment assistance require that the claimant should be necessitous, capable of work, registered at an employment office, and willing to accept employment defined

as suitable. It is, in most schemes, laid down also that the beneficiary should, if so directed, follow a course of training, or perform relief work, if offered.

The interpretation of the term "necessitous" is, especially in those schemes which are applied through local authorities, left to the discretion of the latter. The Belgian scheme, under which State subsidies are granted to voluntary insurance funds, specifies that the means of the household to which the claimant belongs should be taken into account, according to a definite scale, in fixing the rate of the assistance payment. Under the French and British schemes the need of the claimant is assessed on the basis of the resources of himself and his dependants, excluding the means of other members of the household, but in Great Britain the law requires that certain items of means, including the capital value of the dwelling-house, should be disregarded in the assessment. In Ireland account is taken of the means of the claimant only, and two means limits are prescribed, the one applicable to rural, and the other to urban, areas.

By "suitable" employment is usually meant any work which the beneficiary could reasonably be expected to perform and which is remunerated at the rate current in the locality. In Switzerland, the employment is not considered suitable if it would injure the beneficiary's prospects of returning to his former trade. The Irish Act is the most precise on this point, stating that the employment must be suitable, having regard to the age, sex, physique and normal occupation of the individual.

The main function of unemployment assistance schemes is the maintenance of the beneficiary and his dependants, and accordingly the amount of the assistance payment is always adjusted to the size and composition of the family group to be maintained. Nevertheless, in Sweden and the United States, where assistance consists primarily in the provision of employment on relief work, persons so assisted receive wages approximating to local rates for the class of work performed. The degree in which the allowance is varied according to the family responsibilities of the beneficiary may be indicated by comparing the allowance for an unmarried man with that for a man with a wife and three dependent children: the ratio of the allowances is approximately 1 to 2 in Great Britain and Switzerland, 1 to 2½ in Ireland, and 1 to 3 in France. An over-riding maximum is, however, provided for under several schemes, *e.g.*, half the previous wage, plus family allowances, in France, and the full previous wage in Great Britain.

The duration of assistance allowances is unlimited in Great Britain, Ireland, and Sweden. In France, the local funds, which administer unemployment assistance, may fix a maximum period. In Switzerland, the duration should not, as a rule, exceed 190 days in a year, but in exceptional cases it may be extended to 310 days.

The financial and administrative structure of unemployment assistance schemes is wholly centralised in Great Britain and Ireland, the entire cost being met from national taxation, and the examination of claims and payment of benefit being entrusted to officers of the national government. Under these schemes the allowance is invested with the character of a right, and appeal machinery is established in order to decide cases of denial or insufficiency of the allowance.

In Belgium, France and Switzerland on the other hand, the central government grants subsidies to voluntary insurance funds or to local unemployment funds: these funds fix their own rules, but the subsidy is only granted in respect of allowances corresponding in amount and qualifying conditions to standards prescribed by the central government.

D. Medical Assistance

Various forms of medical assistance, supported in whole or in part from public funds, staffed by a salaried personnel and intended mainly for low-income groups, are to be found in almost all countries. The services provided under medical assistance schemes consist predominantly in hospital and other residential care, the treatment of chronic diseases, and the care of mothers and children. Consultation and attendance by general practitioners is a service which is rarely organised as a branch of social assistance. The following sketch does not include examples of schemes of medical relief for the indigent as such.

MEDICAL ASSISTANCE IN SOVIET RUSSIA

In the Soviet Union all forms of medical assistance are gratuitous, and are administered by the public health organisations of the constituent Republics, under federal guidance. The doctors and auxiliary staff receive fixed salaries, and private practice hardly exists. Medical attendance in the town is given either at polyclinics or in hospital, and as rarely as possible at the patient's home because of unsuitable housing conditions. Until 1937 the medical care of insured persons,

i.e., the entire employed population, was financed from social insurance contributions, but from that year onward the cost has figured on the general budgets of the governments. The social insurance committees of the trade unions, however, provide sanatoria and special diets for sick members, and possess their own medical staff, the duties of which include factory inspection, certification of incapacity, and reporting on the quality of the treatment furnished by the public health organisations. The arrangements for the medical care of the workers on collective farms and their families — the majority of the population — are still of an elementary character. Care is provided by rural health stations, staffed by a doctor and nurses and having accommodation for a few bed-patients. The health stations may be visited periodically by city specialists, and serious cases are sent to the central hospital for the district.

MEDICAL CONSULTATION AND ATTENDANCE IN RURAL AREAS

It is notoriously difficult for private medical practitioners to establish themselves in rural areas where the population is sparse and incomes are commonly low. Mainly to meet the needs of the rural population, several countries maintain a national scheme of consultation and attendance by general practitioners.

Thus, Ireland, Norway and Sweden are divided into numerous dispensary or health districts, to each of which one or more salaried medical officers are appointed, who serve under the supervision of the Ministry of Health. In Ireland the medical services rendered under the scheme comprise every necessary form of care, including, *e.g.*, medicines, surgical appliances, and treatment by specialists; the services are free, but are not available to persons who are deemed able to purchase privately whatever medical, surgical or dental care they may need. In Norway and Sweden, the medical officers, in the rural areas, perform public health duties besides treating the sick. The patients pay small fees and, in Sweden, the State refunds part even of these, in the case of persons whose means do not exceed a prescribed limit.

In the Canadian provinces of Manitoba and Saskatchewan, many rural districts have appointed salaried doctors to supply free medical care for the taxpayers and their families and servants. The contracts with doctors are supervised by the provincial public health authorities. The doctor is required to furnish the services expected of a general practitioner, including

minor surgery, obstetrical care, and immunisation. In Saskatchewan the districts often take joint action to provide hospital care also.

HOSPITAL TREATMENT

Public hospitals for diseases in general, tuberculosis and mental diseases are, in most countries, constructed by local governments, but they are often subsidised by the State; hospitals belonging to charitable bodies also are frequently in receipt of grants from public funds. As a rule patients who are not indigent are required to contribute to the cost of their treatment according to their means. In certain countries, notably Norway and Sweden, a different principle is adopted: patients are not subjected to a means test, but pay a standard charge, which is only a small fraction of the cost. It is the universal practice of sickness insurance institutions to enter into contracts with public hospitals to provide treatment for insured persons, without charge to the latter.

In certain countries — for example, Denmark, Great Britain and Sweden — treatment for venereal diseases is provided without charge to the patient.

MATERNAL AND CHILD HEALTH

The health of mothers and children is usually the concern of two branches of social assistance: the one responsible for ante-natal supervision, obstetrical care and the supervision of infants-in-arms, and the other for the health of schoolchildren. Both branches are inspired by preventive rather than curative policies. In most countries maternal and child health, when not entrusted to compulsory sickness insurance, is still largely in the hands of communal authorities, and often dependent upon local charitable initiative. The last few years, however, have seen an intensification of State action in this field, which is illustrated by the recent creation of central departments to promote these branches of assistance in France (1938) and in several Latin-American countries, *e.g.*, Argentina, Bolivia, Colombia, Ecuador and Mexico.

The care of mothers and infants is usually organised on the basis of local centres or clinics, staffed by doctors, midwives and nurses, and providing supervision, treatment and instruction, as well as special diet for the mother and milk for infants after weaning. Statutory provision for this branch of assistance, as distinct from poor relief, is still rare. Perhaps

the oldest and certainly one of the most effective schemes is that established in Great Britain in 1918. The scheme is administered by the county authorities, which receive a large subsidy from the State. The services provided comprise all those just enumerated, and, in particular, the supply of layettes and a woman to help in the home, accommodation in maternity hospitals, and the maintenance of day nurseries. Beneficiaries are required to contribute towards the cost of their treatment in so far as they are able. Similar schemes are spreading in the United States, with the encouragement of the federal subsidies offered by the Social Security Act, 1935. In the Soviet Union, especially in the urban areas, where maternal and infant assistance is highly developed, these services are gratuitous. Sweden, by an Act of 1937, has consolidated and improved an older State-provincial maternity scheme, and now assures every woman, throughout the country, of free attendance by a midwife or free confinement in a hospital. A nation-wide system of salaried midwives was set up in Sweden in 1919 and legislation for the same purpose was adopted in Great Britain in 1936 and in Germany in 1938.

Measures for protecting the health of schoolchildren extend beyond the sphere of medicine into those of nutrition and education. Here again early action was taken by Great Britain, which introduced State-subsidised schemes of medical inspection and treatment in 1921 and school meals in 1906; similar services are free only in the case of necessitous children. Among countries which have recently established school medical services, may be mentioned Argentina (1938) and Ecuador (1938), while other examples of State-subsidised schemes of school meals may be found in Denmark, France and Sweden.

E. Rehabilitation of Disabled

In many countries central and local governments subsidise private institutions, or maintain public institutions, for the education, training or sheltered employment of physically defective children and adults without means, especially the blind, the deaf and the seriously crippled. More positive and systematic modes of assistance for rendering disabled persons self-supporting are exemplified in the social legislation of Denmark, Germany, Great Britain, the Soviet Union and the United States.

In Denmark there is a national scheme of invalidity insurance, but persons who are disabled in childhood may not have

the opportunity of becoming insured and obtaining the treatment, appliances and vocational re-training for which the scheme provides. Such persons are entitled, if they are without means, to those benefits at the hands of the local authority, the cost being borne wholly or mainly by the State.

In Germany, since 1920, it has been compulsory for employers to engage a certain number of disabled persons in their undertakings. The law applies to undertakings in which at least 20 persons are employed. The minimum proportion of disabled persons to the total staff varies according to the class of industry to which the undertaking belongs in conformity with principles laid down by the Reich Government, but does not as a rule exceed 2 per cent. The quota of places must be filled in the first instance by war victims and victims of industrial accidents in receipt of pensions for incapacity of 50 per cent. or more, and in the second instance by the blind who are not within these categories and by pensioners whose incapacity is less than 50 per cent. Disabled persons are preferably found employment in their former occupations. Specific posts in a given undertaking may be set aside for the disabled. A disabled person cannot be dismissed without consulting the central assistance authority for the region, to which the practical application of the scheme is entrusted. The same authority is also responsible for the vocational re-training of the disabled, in so far as they are not industrial accident victims, in whose case the responsibility lies with the accident insurance corporation concerned.

In Great Britain, the Government began to take interest in the physical and vocational rehabilitation of the disabled only a few years ago. Since the outbreak of the Second World War, however, the Government has acted vigorously in order to make available the potential productive capacity of the disabled. In all parts of the country the Ministry of Health has promoted the creation of fully-equipped fracture and orthopaedic departments in hospitals. In the autumn of 1941 the Ministry of Labour and National Service announced a scheme for the training and placement of the disabled. Advantage of the services offered by the scheme may be taken by any person over the age of 16 who is disabled for his former occupation, but not so severely that he cannot be trained for some ordinary employment. Local officers of the Ministry, who maintain contact with hospitals, interview candidates for rehabilitation before discharge, in the presence of the doctors concerned. Training is given in a wide variety of occupations, especially those connected with the production of munitions.

The courses, which are adapted to the requirements of disabled persons and conducted under medical supervision, are provided either at the ordinary training centres of the Government, in private institutions experienced in rehabilitation work, technical schools, or factories. It is considered that the training should, in most cases, be completed within 26 weeks. Allowances, without any means test and on a liberal scale, are paid during training; they vary according to age, sex and the number of dependants.

In the Soviet Union, the local authorities responsible for social assistance provide disabled persons of all categories, whether in receipt of war, accident or invalidity pensions or not, with re-training in special workshops or in ordinary technical schools, and allowances are granted for their maintenance and that of their families. Artificial limbs are supplied. Large numbers of disabled persons are organised in co-operative societies of artisans or agriculturists: these societies receive loans and subsidies from the Republic concerned. Certain large undertakings make arrangements for the employment, under medical supervision, of tuberculous persons, the blind, deaf, etc.

In the United States, the Federal Government co-operates with the States by providing subsidies to schemes of vocational rehabilitation set up by the States: this plan has been in operation since 1920, but the federal subsidies were increased by the Social Security Act, 1935. The subsidies may be claimed on behalf of any person who suffers from permanent physical disablement, is of employable age and is susceptible of being fitted for normal, full-time employment. Rehabilitation comprises the supply and renewal of surgical appliances, vocational training or re-training and placement. These services are available to persons irrespective of their means. Until 1940 definite provision for maintenance had existed only in the case of disabled persons receiving workmen's compensation, but in that year the Federal Government decided to subsidise State grants for the maintenance of persons undergoing training, on the basis of financial need; no maximum rate for the allowance is prescribed.

CHAPTER II

THE SOCIAL INSURANCE APPROACH

Introduction

Compulsory social insurance did not, like Minerva, spring full grown from the forehead of Jupiter, or even of Bismarck. Its beginnings were tentative and there was at first no vision of what the completed whole might be. In particular, the essential unity of the risk, namely loss of earnings, resulting from accident, sickness, invalidity, old age, death and unemployment, was not perceived, nor was it foreseen how insurance would gradually extend its functions, and, from being principally concerned with compensation by cash benefits, would turn its attention more and more to preventive and restorative services.

Nevertheless, from the outset compulsory insurance was shaped by the purpose of rendering the wage earner as independent of poor relief as possible, on the principle that his wage should include an insurance premium covering the risk of its involuntary loss, the liability of the State being merely subsidiary.

For building the first great European schemes, the foundations were the voluntary sickness funds, the employers' liability principle, and the pension funds which had long existed for civil servants, miners, seamen, etc. From the beginning, social insurance has therefore distinguished between the accident risk, for which the employer is held solely liable, and the general physical risks, which are regarded as the common concern of employers and workers. The general physical risks have in turn been classified, for the purpose of organisation, according as they imply short-term cash and medical benefits (sickness), or long-term cash benefits (old age, death and invalidity). When, years later, unemployment was added to the risks covered by social insurance, the starting point was the voluntary insurance conducted by the trade unions. Social insurance early acquired a pattern of organisation which became classic and which has been followed in some cases even by countries

where the traditional institutions in question had not been developed. Compulsory social insurance began nearly 60 years ago in Germany, and the legislation of 1883-89, associated with Bismarck, has, more than any other, influenced the development of social insurance.

Several European countries, instead of proceeding direct from voluntary to compulsory insurance, have experimented with State subsidies to the voluntary insurance movement, first to the sickness and old-age funds and then to the unemployment funds. The weakness of voluntary insurance has always been that the groups most in need of insurance protection, namely those with the lowest wages, the most irregular employment, and the least savings, cannot afford to purchase protection unaided. The State subsidy lowers the cost of insurance, though its help is not confined to the poorest members of the fund. Where the subsidy is considerable, *e.g.*, one-fourth of the cost, and the general standard of living and education is high, as in Denmark and Switzerland, voluntary sickness insurance has been able to attract the majority of the low and medium-income population, including the peasants, who are a very important class in these countries, and other independent workers; even so, in 1933 Denmark made registration with a sickness fund compulsory for every adult, while numerous Swiss cantons also have placed sickness insurance on a compulsory basis.

Most countries, however, have preferred to dispense with the phase of subsidised voluntary insurance, either because the social conditions for its success were lacking, or because the State was not ready to provide the subsidy required. The compulsory principle can reach, through the employer, the whole employed population, including apprentices and unskilled workers. Compulsion would not be practicable without other resources besides the contribution of the insured, but, when liability to insurance is defined by the criterion of employed status, an employer's contribution, for which weighty and decisive arguments are advanced, can be and is always imposed, so that the resources of the scheme are greatly increased. By compulsory insurance, industry is required to maintain for its workers a strong protection against destitution. The resources of compulsory insurance are, however, often augmented by a State subsidy, for which the main justification is the interest of the State in the promotion of social welfare.

The order in which the several branches of social insurance are introduced is determined, on the one hand, by the degree of

urgency attributed to each branch and, on the other hand, by the comparative difficulty of the administrative problems involved. It might have been expected that sickness insurance, with its local machinery for maintaining close contact with the insured and with a medical service available for all physical risks, would be the first branch to be established. In reality, however, a more or less simple employers' liability law, which produces its effects with a minimum of Government intervention, has everywhere preceded the introduction of any branch of compulsory insurance. In voluntary insurance the most advanced branch is commonly sickness insurance; this fact may either provoke the easy step of converting sickness insurance into a compulsory scheme, or, as evidence that some provision is already made for covering the sickness risk, may cause the Government to attend rather to pension insurance. Compulsory unemployment insurance, apart from the British Act of 1911, is a creation of the last dozen years and is consequently the youngest branch of social insurance.

This classic pattern consists of four designs, of which two — workmen's compensation and unemployment insurance — stand isolated from each other and from the remainder, and two — sickness insurance and pension insurance — are contiguous but nevertheless distinct. It is highly resistant to change, and we may, according to our preferences, regard the various branches of social insurance either as specialisations necessary for the efficient discharge of different functions or as a group of organisms each of which, once well established, fights to retain its own hunting ground and survive. However that may be, it is certain that social insurance, as built up principally in Europe between 1880 and 1930, has made an immense contribution to the social security of the employed population, and that the same broad principles are capable of effective application in a wide variety of cultures.

While retaining its original divisions, social insurance has nevertheless evolved; each branch — workmen's compensation, sickness insurance, pension insurance, unemployment insurance — has pursued a more or less independent career, adapting its structure and policy ever more closely to the nature of its tasks, as gradually revealed to it. But at the same time, all the branches have been influenced by common tendencies, the sharing of which has brought them closer together. It is indeed remarkable that the evolution of the several branches of social insurance, each along its separate path, instead of leading them farther apart, is bringing them closer — in method of

organisation, scope, benefit policy, and finance. This movement can only be sketched with very broad strokes, which necessarily, but arbitrarily, obscure important divergencies among the practices of different countries and overstress the similarity of speed and direction in the development of national policies.

A. Organisation

(1) WORKMEN'S COMPENSATION

When the principle of employers' liability for industrial accidents had been recognised, prudent employers of limited resources began to insure against their liability with insurance companies or to form mutual insurance associations, often on an occupational basis. Insurance became more frequent when workmen's compensation laws rendered the employer liable for accidents irrespective of the worker's fault. Insurance companies and mutual associations were already well established in several countries before the idea of social insurance became an effective force, and in these countries organisational change has been difficult and slow. Later on, for the purpose of securing the workers' claims, the necessity of compulsory insurance was admitted, and the fact that the employer might be able to insure only with a company carried on for profit constituted a justified objection to the application of compulsion. Moreover, some employers might be unable to find any company or association which would accept their risks. In order to meet these difficulties, the State establishes a mutual fund with which any employer can insure his risk at a premium that includes no margin for profit; instead of establishing such a fund, the State may control the premium rates charged by companies and even oblige the latter to share among themselves the insurance of the employers whose risks are unprofitable.

The State mutual fund is gaining ground, if slowly, as the most appropriate type of carrier for accident risks. Endowed with the monopoly of accident insurance, a State mutual fund, if competently managed, possesses decisive advantages from the standpoint of the worker and of industry generally; it is able to attain certain objectives which, where insurance is conducted by private bodies, cannot be attained at all, or only by indirect, makeshift devices. Insurance can be automatic for all the workers within its scope, and the payment of admitted claims

be perfectly guaranteed. A cheap and efficient routine for the collection of premiums can be installed. Economy in administration enables benefits to be improved. Friction between the claimant and his employer is eliminated, since the latter is no longer a party to the case. Participation of workers' and employers' representatives in the management secures that the law is administered in a fair spirit, and justifies the substitution of the fund itself for the courts as the arbitrator of claims. In the interests of workers and employers, it is able to promote accident prevention by positive means and to organise efficient medical and rehabilitation services; in these activities its status confers on it the power to invoke the co-operation of other public authorities.

(2) SICKNESS INSURANCE

In western and central Europe, where it originated, compulsory sickness insurance took over, as the basis of its organisation, the existing voluntary institutions. Politically, their claims could not be ignored, and, as sole depositaries of administrative experience in this field, their co-operation seemed indispensable for the launching of a compulsory scheme. The voluntary institutions were self-governing mutual benefit societies, the membership of which was drawn from workers in the same occupation or undertaking, or, irrespective of occupation, in the same locality. The voluntary institutions that were occupational in character often represented a survival of medieval corporative tradition, and there was at first the hope that the solidarity of feeling and similarity of needs to be found especially in occupational bodies would afford a firm foundation for the application of compulsory sickness insurance. This expectation was found to be justified only in part.

Even at the outset it was necessary to establish statutory sickness funds on a local basis to take care of persons who would not, or could not, join the existing societies. Moreover, it gradually became clear that a multiplicity of small societies, often operating in the same area, is difficult to regiment into conformity with the stringent administrative exigencies of a national compulsory scheme, and that they could not rise to the opportunities, now beginning to be discerned, which sickness insurance offers for improving the people's health. A sickness fund must have a territorial basis in order to be able to organise its medical services efficiently, utilising fully the local medical facilities; contracts with doctors and hospitals must in any case be uniform within the same locality. The fund must not be so

large that it loses intimate contact with the insured individual, but its membership must be numerous enough to secure fairly even sickness experience from year to year. Again, occupation has a decisive influence on the morbidity of those engaged in it and, for that matter, on their unemployment: the selection of insured persons by occupation results therefore in the concentration of bad risks (*i.e.*, high morbidity and irregular contributions) in some funds and of good risks in others. Hence, the constant policy in most countries has been to strengthen the statutory territorial funds at the expense of the societies of private origin. No new societies are admitted to share in the administration of compulsory insurance and the existing voluntary societies are steadily reduced in numbers by amalgamation. The voluntary societies, however, introduced into compulsory sickness insurance, and indeed into social insurance generally, a tradition of democratic self-government which was taken over by the statutory sickness funds.

The territorial organisation of compulsory sickness insurance has invariably been adopted in those countries where no voluntary institutions existed and where, in consequence, the very difficult task of creating an entire organisation, albeit a rational one, had to be faced.

(3) PENSION INSURANCE

The forerunners of general schemes of compulsory pension insurance were the retirement funds for public servants, employees of large stable undertakings, such as railways, and in several countries the pension schemes for miners and seamen — groups in whose welfare the State took a special interest. The general schemes for manual workers or employed persons applied the ideas, but not the forms, of these occupational or establishment funds.

Pension insurance for the mass of manual workers has, in almost all countries, been centralised from the outset, the State having created a single national institution to administer it. The payment of pensions to invalids, the aged and the survivors requires a large body of insured persons in order to obtain an even claims experience, and a large accumulation of capital to cover accruing and accrued pension rights. The contact of the institution with the individual, which must be continual in sickness insurance, is but occasional in pension insurance.

Autonomous, democratic government is less marked in pension insurance than in sickness insurance. The reason for

this may be sought in the facts that there is a weak tradition or none at all to be handed on to the newly created pension institution, and that financial and actuarial problems are the main preoccupation of long-term insurance. Nevertheless, most general schemes, in which pension and sickness insurance are often combined, are administered with the participation of representatives of employers and workers. The right of being represented corresponds to the duty of contributing, and both symbolise the responsibility of the parties as distinct from the State for the good administration of the joint concern. Representative government serves also to maintain the confidence of the contributing parties in the benefit and financial policy of the institution. In the awarding of pensions, especially for invalidity, there is a clear need for the collaboration of employers and workers possessing a practical acquaintance with the claimant's occupation.

Pension insurance providing adequate benefits in the case of old age, invalidity and death is costly, much more so than sickness insurance, and general schemes for manual workers offer, as a rule, benefits which represent hardly more than a bare minimum of subsistence. Certain privileged groups — those with higher salaries and in permanent employment, especially in establishments which are not exposed to competition — can make better provision for themselves than a general scheme, intended primarily for manual workers, could offer. In many instances these groups, as has been noted above, had already constituted their own pension funds before the general scheme was introduced, and in certain instances they have done so afterwards. In central Europe and in South America there exist numerous schemes of compulsory pension insurance for salaried employees as a social class, apart from the establishment funds founded by employers and the special statutory funds for miners, seamen and railwaymen. In Europe these special schemes and funds have continued to exist side by side with the general scheme. Their members are exempted from insurance under the general scheme, if the special scheme or fund is of statutory origin or its financial soundness is guaranteed (in establishment funds the maintenance of full actuarial reserves is as a rule required) to the satisfaction of the supervisory authority, and provided, of course, that the benefits are at least equivalent in value to those of the general scheme.

In several European countries the organisation of pension insurance presents the picture of a single national institution

for manual workers, one smaller fund each for salaried employees, miners, seamen and railwaymen, and a multitude of establishment funds. Little tendency to concentrate the whole of pension insurance in one scheme has been observable, though, in countries where establishment funds were numerous, amalgamations have taken place in the last few years. The State usually subsidises the general scheme, but only rarely the salaried employees' scheme or establishment funds; it therefore saves money by exempting salaried employees and the members of these funds from the scope of the general scheme. The members of the special institutions, except miners' and seamen's funds, are better risks than manual workers, and by keeping themselves apart, can retain that advantage as well as devise benefits more closely suited to their needs. Since the possibility of transfer from one scheme to another must always be provided for, it is necessary to prescribe elaborate regulations for the transfer, with the person, of the actuarial reserve for his accruing rights, or else to require the several institutions concerned to share in a joint pension when the claim matures.

In South America, pension insurance among the Atlantic States has developed on lines different from those followed in Europe. Schemes of compulsory pension insurance have been instituted for successive groups of workers, beginning with those in permanent employment. As a rule, the State has granted subsidies in some form to these schemes. When this process has advanced to a certain stage, the differences between these schemes, and the omission of the less privileged groups, come to be regarded as unjustified and anomalous, and then a beginning is made in the direction of unification by imposing uniform standards, or by co-ordinating the administration of the schemes under a single policy-making authority, or by amalgamating some of the funds. There is, indeed, a marked tendency to centralise pension insurance and at the same time to bring in groups hitherto excluded, such as the large group of manual workers in industry, which is of recent growth.

The dispersal of the administration of pension insurance among occupational schemes and establishment funds is a disadvantage from the standpoint of the prevention of invalidity. So, for that matter and from the same standpoint, is complete centralisation without regional agencies. As long as there is no national omni-competent health service, and while sickness insurance is responsible for temporary sickness only and its means of action are limited accordingly, pension insurance must do what it can to prevent threatened invalidity among its

members, and for this purpose it must enter into co-operation with sickness insurance by assuming responsibility for certain forms of treatment or the treatment of certain diseases, such as tuberculosis, which are likely to lead to invalidity. This means that pension insurance can no longer confine itself to cash benefits and financial administration, but must intervene in the organisation of medical care. Such intervention, in order to be effective, involves close contact with sickness funds acting as its local agencies. Occupational pension schemes and establishment funds are evidently ill adapted to co-operate with sickness funds in preventing invalidity and promoting the extension of health services.

(4) UNEMPLOYMENT INSURANCE

Unemployment is the latest of the social risks to be covered by compulsory insurance. By 1940 about a dozen countries had adopted compulsory insurance and a somewhat smaller number were still experimenting with a subsidised voluntary insurance, using trade unions as their agencies. The slow development of compulsory unemployment insurance has been due in part to doubt whether unemployment is an insurable risk, since it is very difficult to define and unpredictable in its volume, while a relief system, it was felt, was indispensable to meet prolonged unemployment. The recent accession of the United States and Canada to the ranks of countries with compulsory schemes shows, however, that the advantages of insurance forms have been judged sufficient to warrant the effort to subject this refractory risk to insurance technique.

The typical organisation of compulsory unemployment insurance consists of a central insurance institution, working through the employment exchanges as its local agencies. Even more than pension insurance, unemployment insurance requires the concurrence of large numbers of members in order to smooth out as much as possible the occupational and local fluctuations in the risks; even so, it needs to accumulate also a large contingency fund. Moreover, where unemployment insurance and the employment service are not subject to the same authority, close co-operation at the centre is necessary between them. Employers and workers participate in the application of compulsory unemployment insurance chiefly through their representatives on advisory bodies or the tribunals for the settlement of disputed claims.

CONCLUSION

In the organisation of social insurance the leading tendency has been towards centralisation. This tendency, which is paralleled in many other fields of social life, is here characterised by the spreading of responsibility for common risks over an ever more numerous group: occupational schemes give place to those which embrace all trades without distinction, and the area served by an institution grows larger.

The earliest carriers of social insurance were small institutions owing their origin to private initiative or to public experimentation on a small scale. The administration of compulsory insurance through numerous and heterogeneous institutions is likely, if not certain, to be costly. A higher ratio of officials is required per thousand insured persons in order to perform a given function, and the work of supervision by higher authorities is more extensive and complicated. Small institutions, even if they can safely carry their own risks, require relatively large reserves or else must reinsure their liabilities. As a branch of insurance gains experience, it perceives fresh opportunities of improving its services to the insured that call for the employment of technical staff and equipment beyond the resources of small institutions. Since every institution, by definition, possesses some degree of autonomy, some elbow room within the web of regulations, differences of practice grow up among them implying inequalities which may be repugnant to the policy-making authority and not easily explicable to the insured individual. The price of autonomy is variety, for worse as for better; the policy-making authority would like to have the better variety only, and its efforts in this sense lead it to impose uniformity of practice at a higher level. And when this has been done, the question naturally arises: why a variety of institutions to perform identical functions? So there is a twofold tendency to reduce the number of institutions while increasing their size, and to smooth out differences between them.

B. Scope

(1) WORKMEN'S COMPENSATION

Based as it is on the principle of employers' liability for occupational risk, workmen's compensation can protect employed persons only. The principle, for which a precedent was found in Roman law, was formulated as a remedy for the scandal which resulted from the emergence of a numerous group of

maimed and destitute persons, waste product of an expanding factory system. At first, therefore, the scope of workmen's compensation was limited to workers in factories and mines, where the danger of accident was greatest, but logic soon began to press for the inclusion of all employed persons. The principle that owed its origin to the peculiar hazards of factory work sought for itself a wider validity, no longer conditioned by the degree of risk involved in the work.

The extension of the scope of workmen's compensation encountered resistance, which in some countries is not yet wholly overcome. A long rearguard action has been engaged against the inclusion of domestic servants, whose risk is not distinguishable from that of housewives, and against the coverage of agricultural workers, whose occupation, unless it involves the handling of machinery, was supposed likewise to offer no special hazards. Again, small employers in general have been exempted from liability in many countries, whereby domestic servants and many agricultural workers are incidentally excluded. It had been tacitly assumed that the employer was a factory owner, financially strong enough to take the liability for compensation, but this assumption was unjustified in the case of a small employer whose resources might be hardly greater than those of his workers. Another tacit assumption, namely that the worker could not carry his own risk, has been held to be unwarranted in the case of those workers and, with stronger reason, salaried employees whose remuneration is deemed high enough to allow them to make their own provision against accident, and the laws of a certain number of countries exclude them accordingly.

Some laws, among which are to be counted those having the widest scope, do not require employers to insure. The legislature, having established the right to compensation for substantially all workers, rests content to leave it to chance whether the injured worker can enforce his claim or not. Those laws, on the other hand, which are preoccupied with securing the worker's claim by compulsory insurance often exclude small undertakings involving slight risk and even agriculture as a whole, because of the expense and difficulty of collecting premiums. Even so, there are half a dozen European countries and three Australian States in which compulsory accident insurance covers substantially all employed persons.

Accident insurance comes into existence as a means of enabling employers to share their liability for compensation: it is made compulsory in order to secure that the worker's

claim shall be met. Once insurance is compulsory and is administered by a State fund, it is seen that the insured person is no longer the employer but the worker, on whose behalf the employer pays the premium. With the disappearance of the direct liability of the employer towards the workers and its replacement by the collective liability of employers, discharged through an insurance institution, workmen's compensation becomes a branch of social insurance.

The employer's liability principle affords no help to the independent worker — artisan, peasant or fisherman — but accident insurance as a branch of social insurance is able to take care of the risks of these groups, and, in several countries where they are of considerable importance, provision is made for them to insure their occupational risks, sometimes voluntarily, sometimes compulsorily. Thus, in Germany and Italy, peasants are compulsorily affiliated to the special institutions which administer accident insurance in agriculture, while Norway and Sweden have set up special schemes of accident insurance for fishermen, compulsory in the former, voluntary in the latter.

(2) SICKNESS INSURANCE

Unlike workmen's compensation, compulsory sickness insurance and, for that matter, pension insurance and unemployment insurance, do not rest on any juridical principle rooted in the common law: their justification is essentially pragmatic. But just as workmen's compensation requires an employer to take the liability, so the other branches need him in order to share the contributions and to collect them.

Compulsory sickness insurance in most countries has been applied from the beginning to persons employed in industry and commerce; a few countries, however, have begun with the urban or industrial wage earners only. In agricultural countries where there are large districts having a sparse population and few medical facilities, the extension of sickness insurance to the farm population is a late development, not yet completed in parts of eastern and southern Europe. Several South American States are attacking the problem of agricultural workers' insurance by advancing district by district, first equipping with the necessary minimum of facilities the area to be served, and then putting the insurance into effect. By 1939, sickness insurance for workers in industry and commerce had been established in a score of countries, but agricultural workers were covered in half a dozen only.

Non-manual workers whose salary exceeds a certain level are excluded from compulsory sickness insurance in a certain number of countries, just as they are from workmen's compensation. In several countries a special reason for their exclusion from sickness insurance is the unwillingness of the medical profession to see restricted the area of their private practice. The salary limits seem to have been fixed much too low to enable the excluded workers to dispense with insurance altogether, so that they must therefore contribute to a voluntary sickness fund. It cannot be asserted, however, that the salaried employees have raised any strong objection to their exclusion from compulsory insurance: in some countries they may even have appreciated their exclusion as a social distinction. But times are changing quickly, and a 1941 amendment of the British scheme, raising the salary limit by 60 per cent. to £420 a year, has been welcomed.

In industrialised countries the great majority of persons in the low income group are no doubt found within the ranks of wage earners, but inability to provide against sickness is not, of course, identified with employed status. There is clearly a need in several countries for sickness insurance among the more or less numerous class of independent workers of small and moderate means, but in the absence of an employer, it has not been considered feasible to make insurance compulsory for this class. Instead, most schemes offer them voluntary insurance under certain conditions designed to keep out bad risks. Usually a person who has proved by completing a qualifying period of compulsory insurance that he is a normal risk is allowed, on ceasing to be employed, to continue his insurance as a voluntary contributor. Independent workers as such are, in some countries, admitted to voluntary insurance within the statutory scheme under conditions as to health and age similar to those required by private sickness insurance. Surprisingly little advantage seems to be taken of this opportunity, for only a very small proportion of the members of many statutory sickness insurance schemes are voluntary contributors. Various inconsistent reasons may explain this poor result: ordinary improvident optimism, inability to pay the entire contribution, continuance of earnings from business during temporary illness, preference for a private sickness fund.

Several countries which have an important agriculture characterised by peasant farming and which are highly democratic in culture have preferred to identify the scope of their sickness insurance schemes, not with employed status, but with

citizenship, so that they apply to the whole or the greater part of the adult population. Such schemes are operating in Denmark, New Zealand and several Swiss cantons.

(3) PENSION INSURANCE

The scope of pension insurance has extended over the employed population in the same rhythm as that of sickness insurance, but in most countries some years later. Here also agricultural workers are the last to be included, although pension insurance is not so difficult to extend to this group as sickness insurance. Generally speaking, the majority of schemes of compulsory sickness insurance have been supplemented after an interval by compulsory pension insurance, but by no means all pension schemes have yet been followed by sickness schemes, especially in the Americas.

The public demand for pension protection is generally wider and stronger than for sickness and medical benefits, but pension protection is more difficult to furnish because of the very high immediate cost and of the absence of an extensive system of voluntary institutions. Salaried employees and independent workers especially are more interested in pension insurance. Consequently, the State has shown a greater concern to render pension protection as widely available as possible. Almost all schemes which are designed primarily for employed persons allow for the voluntary continuation of insurance by persons previously insured compulsorily, and a large number permit voluntary affiliation without a previous period of compulsory insurance. Such voluntary insurance has attracted a considerable number of participants only in Belgium and Great Britain, where the State has heavily subsidised it.

The same countries as have erected sickness insurance on a national basis have, together with others, a similar pension insurance for the whole adult population. In Denmark, New Zealand and Norway, pension insurance has evolved from a non-contributory scheme by the mere introduction of a contribution or special tax, levied on all citizens as potential beneficiaries, thereby relieving in part the charge on general taxation. In Sweden and in Finland, on the other hand, the scheme was designed to be contributory from the outset, but general taxation bears the greater part of the cost.

(4) UNEMPLOYMENT INSURANCE

There is a close analogy between unemployment insurance and workmen's compensation with regard to the criterion which

in practice defines their scope: in both cases the scheme by hypothesis can only cover employed persons. Compulsory unemployment insurance, being a later development and having, for that matter, no such imperative principle as that of employers' liability to support it, has not attained the same extent of application as workmen's compensation in the countries, still small in number, which have introduced it.

The scope of compulsory unemployment insurance in each of the countries concerned embraces persons employed in industry and commerce: agriculture is everywhere excluded, save in Great Britain, which in 1936 introduced a special scheme for farm labour. The exclusion of farm labour appears to be due either to the opinion that there is little unemployment in agriculture, in the sense that few workers are debarred from opportunities to earn their livelihood, or that much agricultural employment, being normally of a seasonal or casual nature, is not the chief means of livelihood of those who engage in it. It is certain that the problem of unemployment in agriculture differs from country to country, and within each country there will be groups of workers for whom insurance is necessary and practicable and some for whom it is not.

CONCLUSION

There is a strong, broad tendency to bring all persons employed in manual work and the lower ranks of salaried employees within the scope of compulsory insurance in all its branches. This is an accomplished fact in most of the highly industrialised countries, so far as industry and commerce are concerned. The penetration of agriculture by social insurance proceeds more slowly; accident, sickness or pension insurance already apply to farm workers in a dozen countries; but unemployment insurance seems unlikely to reach them except where the organisation of agriculture comes into closer resemblance with that of industry, and a permanent class of wage earners has been created.

As regards the exclusion of workers whose earnings exceed a prescribed amount, the present situation is that in the 30 countries where social insurance is of some importance, about one-fourth of the schemes exclude all such workers and another one-fourth apply the earnings-limit only to salaried employees. As might be expected, exclusions are fewest in workmen's compensation laws, owing no doubt to the influence of the principle of occupational risk. The exclusion of higher paid workers is particularly frequent in those schemes which receive

a subsidy from the State. The prescribed limit, which can hardly be other than an arbitrary figure, is adjusted only tardily to change in the general level of wages and in the cost of living.

The problem of bringing independent workers within the scope of social insurance received little attention until a few years ago. On the one hand, there did not seem to be any vigorous well-organised demand for protection from this group, and, on the other hand, no convenient substitute for the employer as collecting agent could be devised, while the State was not ready to take his place as a contributor. The example of the successful working of social insurance among wage earners, the fact that the latter's insurance was being subsidised, and the chronic instability which has affected all means of livelihood in the last decade have, however, combined to render the protection of insurance more desirable and to create a demand for it among independent workers. This demand, which has been chiefly concerned with pensions, can, as a few examples have shown, find a large measure of satisfaction in the offer of the opportunity of affiliation, on a voluntary basis, with a scheme designed primarily for employed persons, but only on condition that a heavy State subsidy is granted to those independent workers who are already elderly when the scheme comes into force.

In several countries, where independent workers, principally farmers, form a very important group, pension insurance and, in a few countries, sickness insurance also, have been established on a national basis, with citizenship instead of employed status as the criterion of insurability. Thus, at one stroke, the whole adult population has obtained security against one or more of the social risks.

C. Risks and Benefits

(1) WORKMEN'S COMPENSATION

Risks

The risks covered by workmen's compensation are the economic loss and medical expenses resulting from injuries incurred in connection with employment. Such injuries, according to Swiss experience, represent in the case of industrial workers generally about two-thirds of all accidental injuries. In many countries occupational diseases are compensated in the same way as accidental injuries, and the list of the diseases so compensated lengthens continually.

Most workmen's compensation laws refrain from defining the term "accident": they merely specify, in more or less brief language, that there must be an injury connected with the victim's work. Originally, an accident was understood to be a sudden, violent occurrence due to an external agent: the attributes of suddenness and violence are even mentioned in some of the older laws.

The interpretation of the definition of industrial accident has entailed endless litigation and has generated a case law of unexampled bulk, especially in France, Great Britain and the United States, so that the student of social policy cannot forbear to doubt whether the result has been worth the expense of money and spirit involved. In countries where workmen's compensation is entrusted to a State mutual fund, employers and workers have been content that a more expedient procedure should be followed, less refined, but perhaps in the end no more arbitrary, and certainly one which is commending itself nowadays to one country after another.

Nevertheless, from the worker's standpoint this litigation has had some utility, in that court decisions have tended to widen the notion of accident in directions along which legislative advance would have been impracticable at the time. The judge is especially tempted to give the widest interpretation to the notion of accident in countries where workmen's compensation is not paralleled by compulsory sickness and pension insurance.

The principle of occupational risk assumed that the mass of accidents were not due to the fault of employer or worker, but it was admitted that on either side of that mass there was a fringe of injuries due to the gross negligence of one of the parties. Where the employer is clearly at fault, but is insured, it would be unfair towards the other contributing employers to pay compensation from the common fund and, where experience rating is practised, it would be unfair towards an employer to debit him with an accident for which the worker's moral responsibility was obvious. However, since workmen's compensation would lose its practical value if many opportunities for disputes on the question of negligence were left open, the fringes excluded have narrowed to the degree that in most countries they now comprise only injuries resulting from such inexcusable causes as the employer's failure to provide prescribed safety appliances or the worker's removal of them where provided. In such cases the guilty party forfeits the protection of the insurance scheme: the worker loses his right to compensation, and the employer must repay the compensation to the

insurance institution, or pay additional compensation to the injured worker, or else expose himself to a common law action.

The main justification for placing on the employer the sole liability for industrial accidents is the fact that he alone has the authority to take preventive measures in his undertaking. Nevertheless, the employer's liability is not confined to accidents which take place in premises controlled by him. He is also liable for accidents suffered by workers travelling on his business and, in half a dozen countries, for accidents occurring during travel to and from the place of work. In Switzerland, insurance against non-occupational accidents is compulsory for workers, its cost being shared by the State (one-fourth) and the worker (three-fourths). On the other hand, persons who work in their home for an employer are almost everywhere excluded.

The first workmen's compensation laws covered accidental injuries only: occupational diseases were excluded because it was thought impossible to prove in the individual case that the disease was caused by the work. At the present time, however, the great majority of laws cover a range of occupational diseases which grows ever wider. The notion of accidental injury was soon held to include diseases arising on some definite occasion and connected with the work (*e.g.*, anthrax infection). Apart from that, the inclusion of diseases has resulted from advance along two separate lines. In some laws the risk is described simply as that of physical injury met with during the work, and this definition comes to include any disease which, in the case considered, is proved to have originated in the work, whether suddenly or gradually (*e.g.*, Brazil, California, New South Wales). Where such an extension by interpretation does not prove possible, special legislation is necessary to enable diseases of gradual onset to be covered. The classic legislative provision for this purpose was that embodied in the British Act of 1906, which contained a list of diseases, chiefly industrial poisonings, and opposite each disease the occupation the exercise of which was conclusively deemed to cause the disease; if the disease was not contracted in the corresponding occupation, then the worker had to prove that the disease was caused by his work. Lists of diseases sometimes running to a score or more of items are now in force in many countries, and the number of diseases covered increases as chemistry introduces new poisons into industrial processes, and medical science and statistics confirm the occupational origin of diseases whose etiology was formerly questioned. The most comprehensive method of covering occupational diseases is found in such legis-

lation as that of Brazil or New York, which, on the one hand, covers any disease resulting from the work and, on the other, all diseases listed as inherent in the exercise of certain occupations. The experience of New York has shown that, even where the coverage of occupational diseases is all-inclusive, the number of disease cases compensated does not exceed 5 per cent. of the number of accident cases, if the heavy disease risk of miners is left out of account.

Cash Benefits

Workmen's compensation laws have always distinguished three states or phases of economic need resulting from accidents: temporary incapacity, permanent incapacity, and death; and, by the benefits in cash and kind which they afford, perform in relation to industrial accidents the same functions as are performed by the sickness, invalidity and survivors' insurances jointly in relation to general physical risks.

Cash benefits are always (save in a few of the special schemes for agricultural workers) reckoned in terms of the previous wages of the victim. The wage or the benefit is always subject to a maximum, and often also to a minimum, rate.

Compensation for temporary incapacity takes everywhere the form of an allowance on a daily or weekly basis. It begins on the expiry of a waiting period of a few days, and lasts until recovery, or until permanent incapacity is ascertained to exist on the completion of medical treatment; a maximum period of, for example, one year is sometimes set for temporary incapacity benefit. In central and eastern Europe, sickness insurance is responsible for the payment of temporary incapacity benefit, but is refunded its further expenditure if the incapacity lasts more than a few weeks.

As regards compensation for permanent incapacity and death, the laws can be divided into three groups representing different traditions or policies. The first group, following the original laws of Germany and France, provides pensions for the permanently incapacitated and for the widows and children. The second group consists mainly of the laws which have been inspired by the British Act of 1897, but with them might be included a few Latin-American laws which followed the Spanish Act of 1900: these laws are characterised by a preference for lump sums, reminiscent of damages, instead of pensions. The third group comprises most of the State legislation of the United States: its benefits stand half way in form between those of the other groups, for they are calculated as lump sums but paid

out in equal instalments over a limited period. Without entering into a discussion of the merits and demerits of these three forms of benefit, it must suffice to indicate that the tendency for some years past has been to adopt the pension as the normal form of compensation for permanent incapacity (if substantial) and death, lump sums being awarded only in exceptional cases where they are clearly advantageous to the beneficiary. If, however, the incapacity is not substantial — *e.g.*, if earning power is reduced by less than 10 per cent. — it is a usual practice to substitute a lump sum for the very small pension which would have been due.

The proportion of the benefit — allowance for temporary incapacity or pension — to wages was originally fixed having regard to the character of compensation as a compromise, substituting a moderate but sure payment for common law damages ranging from zero to the full economic loss and more. The attempt to find a rational criterion for fixing the compensation rate yields a proportion of 50 per cent. of the economic loss if the responsibility for the causation of the accident is shared equally between the employer and the worker, or $66\frac{2}{3}$ per cent. if the employer is charged both with the accidents which are ascribed to his management and with those which are regarded as the normal hazard of industry, namely those in which the respective responsibility of the parties cannot be ascertained. Quite as important as these arguments were the considerations of keeping down the cost of compensation and checking malingering. In fact, one or other of these percentages was adopted at the outset in almost all the laws. In course of time, however, the higher figure of $66\frac{2}{3}$ per cent. has become the predominant one, especially for pensions.

In recent years there has been little change in benefit rates. The most noticeable development has been the introduction of dependants' allowances. In countries where a general system of family allowances is in effect, the allowances, as is logical, are added to the compensation for total incapacity (Australia, Belgium, France, New Zealand). In the few other countries in which dependants' allowances are as yet granted as part of compensation, their introduction is striking evidence of the deeper penetration of workmen's compensation by considerations of social adequacy.

A problem which has not yet been faced systematically in workmen's compensation, nor for that matter in social insurance legislation generally, is that of the adaptation of pensions to the cost of living. The early laws were passed in a period of fairly

stable prices, but after the First World War a period of instability set in. The procedure hitherto followed has been to wait until the situation of pensioners or insurance institutions becomes intolerable and then, by *ad hoc* legislation, to adjust the rate of compensation. It might have been expected that countries with State mutual funds would have led the way in providing for the current adaptation of benefits, since for them this step offers no particular difficulty. Instead it was the British Act, as amended in 1923, which introduced this principle and has so far found no imitator in the workmen's compensation field: a change of 20 per cent. up or down in the level of wages in the victim's occupation at the time of the accident justifies a corresponding adjustment in his periodical payment. As, however, most cases of permanent incapacity are, in Great Britain, settled by a lump sum payment, the opportunities for applying this interesting provision are restricted.

The evaluation of the degree of permanent incapacity is perhaps the most delicate task in the administration of workmen's compensation. During the healing period, the injured worker is in practice required to abstain from work, and his incapacity is in consequence total. But when that period is over, any remaining effects of the injury may involve permanent incapacity in some degree. Accidental injuries, unlike diseases, are usually visible and affect a definite part of the body. The physical damage can therefore be described with some precision. The difficult question is, however, the extent to which earning power has been reduced, for it is that reduction which workmen's compensation purports to indemnify. The common law is ready to award damages for pain suffered and loss of bodily integrity, but no workmen's compensation law sets out to do this, not it would seem for any reason of principle, but because no objective criterion has been devised for measuring these factors. It is the intention, if not always the practice, of workmen's compensation laws to assess permanent incapacity with reference to ability to earn in any occupation reasonably open to the victim. The assessment of the reduction of earning capacity is extremely difficult, since the loss which the injury will entail depends partly on the individual's effort at adaptation and partly on the state of the labour market, a factor which, however extraneous to the philosophy of workmen's compensation, will persist in obtruding itself.

Several approaches to this problem have been, and are still, followed. The first assumes that there is a standard or average individual and that a catalogue or schedule of injuries can be

drawn up assigning to each a specific degree of incapacity or percentage of reduction in earning power. Such schedules are for the most part mere guess work : apparently their degrees could be converted into true average values by observation of the subsequent histories of large numbers of injured workers in different trades, but this appears nowhere to have been done. The schedule, though arbitrary, is at least impartial and, if its use is enjoined by law, removes a great cause of disputes ; by its very finality, it achieves in its way an impression of authoritative justice. The second approach is frankly by the method of trial and error. The judge, aided or not by competent assessors, estimates the probable consequences of the injury for the individual, trying to take account of all the relevant objective factors — occupation, age, sex, opportunities offered by the available labour market — but assuming, nevertheless, a sort of average willingness to make good on the part of the worker. Often a judge makes use of a schedule in this method also, but takes its indications as the starting point only of his estimate. This method is fair, but since it is based on opinion it is apt to leave the worker with a sense of grievance, and because that opinion can be changed, he remains unsettled and unwilling to assert his full powers. A schedule having binding force and generous to really serious cases, if coupled with a sympathetic and thorough rehabilitation policy, may perhaps be found to offer the best solution to this problem, for this combination assures the man of at least a solatium for his injury in every case, and also provides him with assistance and incentive in making the best of his remaining faculties.

Benefits in Kind

Medical aid has been an element of workmen's compensation from the beginning. The British Act, it is true, does not provide for medical aid, but the numerous colonial and dominion laws derived from it are, one after another, introducing this benefit. At first, provision for medical aid was couched in perfunctory terms, for medical men had little to do with the drafting of the laws. In the First World War advances were made in the treatment of wounds, and rehabilitation services were established for the disabled. Only very slowly, however, has more generous provision for medical aid appeared in workmen's compensation legislation, extending these improvements to the victim of industrial accidents.

But though disappointingly slow, this tendency is nevertheless real. An increasing number of countries have begun to

understand both the possibilities and the advantages, economic and social, of specialised and complete medical care for accident cases. The success of Dr. Boehler's accident hospital in Vienna has had a far-reaching influence. The idea that the cheapest and briefest treatment is good enough, is no longer in vogue. The well-founded fear that some doctors would exploit the insurance institutions, has of course hindered in many countries the adoption of a liberal policy of medical aid, but a variety of means have been devised for controlling abuse and also for assuring the quality of medical treatment. Agreed fee-schedules are introduced in many countries, and, where the insurer is a statutory institution genuinely interested in the full recovery of the worker, it may possess its own staff of medical supervisors and its own clinics, or it may contract with clinics complying with the standards it prescribes.

In a growing number of countries, medical aid in workmen's compensation looks to the maximum restoration of working capacity. After an operation, care is continued to restore the fullest mobility and strength to the affected limb ; as for the war wounded, so for the industrial victim, artificial limbs are supplied and renewed by the insurance institutions. The new policy is summed up in the word "rehabilitation", a process of which complete medical care is the first phase and indeed, in the great majority of cases, the only phase. For the prevailing opinion is that there are very few permanently injured persons who cannot be restored sufficiently to enable them to return to their former occupation : that should in any case be the aim. But for the small minority who must change their occupation, certain countries including Spain, Cuba, Germany and the United States (by a federal law) have provided training facilities and help in finding employment : this is the second phase of rehabilitation.

(2) SICKNESS INSURANCE

Risks

The functions of sickness insurance are to provide preventive and curative medical care and partial compensation for loss of wages in case of illness of non-occupational origin, for a limited period. Of the total volume of temporary incapacity among employed persons generally, about nine-tenths is of non-occupational origin. While sickness insurance is concerned mainly with illness due to diseases, it must also take care of non-occupational accidents, which, among the employed popula-

tion generally as distinct from workers in hazardous occupations, appear to be about as frequent as those of occupational origin. Sickness insurance has thus a much larger case load to deal with than workmen's compensation; disease accounts for the great majority of its cases and this fact has diverted attention from the relatively small but nevertheless important group of injury cases.

The definition of the events giving rise to the benefit of sickness insurance is simple; the need for medical care and inability to continue one's usual work by reason of illness, both of them conditions the presence of which only the medical attendant or medical referee is competent to ascertain. The worker does not have to prove that the illness is non-occupational: for it is incumbent on sickness insurance to relieve in the first instance and without question all insured persons needing medical care. In cases where the responsibility of workmen's compensation appears to be involved, the worker will claim compensation if it is advantageous to him; and should he not enforce his claim, the sickness fund will act in his stead in order to reimburse itself. As already noted, sickness insurance in central and eastern Europe regularly undertakes the payment of temporary incapacity benefit in case of industrial accident.

Being so broadly conceived from the outset, the definition of the events giving rise to benefit could hardly be widened and progress has consisted mainly in the enlargement of the range of beneficiaries and benefits. Nevertheless, the ever-growing importance attached to prevention has affected the notion of incapacity. In the earliest practice of sickness insurance, incapacity meant that a man felt too ill to work and that his subjective impression was corroborated by the diagnosis. Nowadays, however, incapacity is understood to be a condition in which continuance of employment would endanger the patient's health or delay his recovery.

With every scheme of compulsory sickness insurance is combined a maternity insurance. The periods of abstention from work before and after confinement are assimilated to periods of incapacity due to illness, and the medical service of sickness insurance provides the necessary care. Maternity benefits, it may be noted, were included in the original German Act of 1883, where their introduction asserted, for the first time but decisively, that social insurance was concerned with the welfare, not of the individual only, but of the family also. Lastly, every scheme of compulsory sickness insurance,

except that of Great Britain, grants a modest funeral benefit, the typical amount of which is one month's wage, and thus rounds off the protection insurance affords against the expenses and wage loss incurred through illness.

Cash Benefits

The principal cash benefit of sickness insurance is a daily sickness benefit, payable during incapacity for work caused by illness.

The right to the benefit depends upon the possession of insured status by the person contributing to the scheme. However, in almost all schemes (the British scheme is a notable exception) the possession of insured status is practically as automatic as it is in compulsory accident insurance. It is sufficient to be employed in an insurable occupation in order to be entitled to the principal cash benefit, if not immediately, then after a very short qualifying period; for maternity benefit and for additional benefits of a costly nature a longer period may be required.

Sickness benefit is almost everywhere proportionate to the wages recently earned by the claimant. The basic wage may be the actual wage or the average wage corresponding to the wage class within the limits of which the actual wage is included. It is the same as the wage on which the contribution is calculated, and is always subject to a maximum, whether higher paid workers are insured or not. A waiting period of a few days is generally imposed, and the benefit only begins to run from the end of that period. The benefit is fixed most frequently at 50 per cent. of the basic wage, but under some schemes the percentage is 60 or even $66\frac{2}{3}$ per cent.

The higher percentages are perhaps most characteristic of schemes adopted in the last 15 years, but it cannot be affirmed that there is any definite tendency to raise rates of sickness benefit or to increase the proportion which sickness benefit bears to wages. Until very recently it was rare for the statutory benefit to be adjusted to the family responsibilities of the beneficiary, though in countries where there is a general system of family allowances, a sick person continues to receive the allowance, at least for a limited period, unless the benefit itself is adjusted. A number of laws, however, permit sickness funds to grant dependants' allowances as an additional benefit. In Great Britain and New Zealand the benefit does not vary with wages: in the former country there are three rates: for men, single women and married women respectively, and in the latter

country there is a single basic rate supplemented by dependants' allowances.

Though the proportion of wages paid as sickness benefit has remained fairly constant, the duration of the benefit has tended to increase. In Germany until 1904 the maximum duration of the statutory benefit was 13 weeks, but in that year it was extended to 26 weeks; in 1941 sickness funds have been authorised to continue payment of benefit as long as there appears to be a reasonable prospect of restoration of earning capacity in any occupation that the person concerned could take up. While 26 weeks is perhaps still the normal maximum period in the majority of countries, we may note that Czechoslovakia in 1924 and Hungary in 1927 had fixed their maximum at 52 weeks, while Brazil has adopted the same limit for its recently introduced sickness benefits. Several other countries have set the maximum at 39 weeks or authorised the extension from 26 to 52 weeks in the case of tuberculosis, or other diseases requiring very long treatment.

It is indeed probable that, in most countries where the maximum has been extended beyond 26 weeks, the motive has been the desire to secure the recovery of a larger proportion of tuberculosis cases. Chile is the first and still the only country to carry this policy to its logical conclusion. The Preventive Medicine Act of 1938 provides for a sickness benefit of unlimited duration for curable cases of tuberculosis, cardio-vascular diseases and syphilis. The benefit, if abstention from work is indicated, is granted as soon as the disease is diagnosed, without waiting for actual incapacity to set in; it is equal in such cases to the full wage, and the patient in consequence is not anxious about the maintenance of his family.

Maternity cash benefit is provided for insured women by all sickness insurance schemes. Its rate is the same as that of sickness benefit. Its duration is determined mainly by the legal provisions requiring or authorising women to abstain from work for certain periods before and after childbirth. Between 1883 and 1911 the total duration of the benefit in Germany was gradually extended from 3 to 8 weeks. After the First World War the consensus of international opinion, expressed in the Childbirth Convention of 1919, prescribed a total duration of 12 weeks of absence from work — 6 before and 6 after confinement — and this standard has been adopted in practically all sickness insurance schemes established since (8 weeks before and after in the Soviet Union). Numerous schemes pay to the mother a small benefit usually equal to one-half the maternity benefit,

during the first few months of lactation. In Great Britain the maternity benefit is not a periodical payment but a lump sum, equal to about five weeks' sickness benefit for insured wives and to half that amount for wives of insured men; obstetrical assistance is not an insurance benefit.

Benefits in Kind

A constant tendency operating over the last 30 years, in voluntary as well as compulsory insurance, is for an increasing share of the resources of sickness funds to be devoted to the medical service: the proportion of benefit expenditure represented by medical care has risen from 50 to 60 and in some countries even to 80 per cent. The rising cost of medical benefit is due partly to the fact that sickness insurance funds make available to their clients the powers of advancing medical science, whose methods of diagnosis and treatment grow ever more elaborate; but it is due mainly to the extension of medical care to the wives and children of insured persons.

The development of sickness insurance policy has indeed consisted in the transfer of emphasis from cash benefits to medical benefits: in other words, from compensation to restoration and prevention. Originally, medical benefit meant hardly more than a simple consultation with a general practitioner and the supply of a bottle of medicine, and it was available to the insured person only. Medical benefit has remained a general practitioner service in Great Britain, but nowhere else. Before the present war, the medical benefits of compulsory sickness insurance had come to include: free advice and treatment by a general practitioner, and, on the latter's prescription, the supply of drugs and the less expensive appliances, treatment by specialists, physical treatment, and hospitalisation. The simpler forms of dental treatment (extractions, stoppings) are also provided, as a rule. Sickness funds are empowered, in the exercise of their autonomy, to supplement their statutory service by additional benefits, such as convalescent care, longer periods of treatment, artificial limbs, dentures, etc.

Furthermore, the majority of European schemes, in the interval between the World Wars, extended their medical benefits to the wife and dependent children of the insured person. From being merely of an optional or additional nature, these family benefits became statutory and universal. They are, however, as a rule, not so ample in kind or duration as those accorded to the insured person himself.

Obstetrical assistance, provided in the first instance for

insured women only, represents the first excursion of sickness insurance into preventive treatment, since it has come to include ante-natal care, and medical supervision of the mother and the newborn infant, as well as attendance at the confinement. Moreover, it was in the form of obstetrical assistance for the insured man's wife that sickness insurance took the first step in providing for the medical needs of the family.

The principal aim of compulsory sickness insurance is now understood to be the improvement of the standard of health of workers and their families, thereby reducing its future liabilities. The main function of the doctor should, therefore, be gradually transformed from that of a healer of acute disease into that of a family medical adviser, vigilant in the prevention of disease and training his patients in their responsibility for preserving their health.

The importance of periodical medical examinations for the detection of serious diseases in their early stages has been recognised for a number of years. Considerations of cost, however, have hindered the realisation of this preventive measure in compulsory sickness insurance. Chile was the first country to set about the huge task of examining its insured population. Sample examinations of the entire staff of factories, here and there, had shown that tuberculosis, heart affections and venereal diseases in a curable stage were present in a substantial proportion of the employed population who were continuing their work unaware of their condition. This discovery led to the enactment of the Preventive Medicine Act, 1938, the object of which was to organise medical examinations for the insured population and to provide for the treatment and maintenance of persons suffering from social diseases in their curable stage. Simple and rapid methods of diagnosis, capable of being applied cheaply on a large scale, were selected (in particular, microradiography, a method invented by the Brazilian, Dr. Abreu) and, using these, the Chilean sickness insurance fund is now examining about 250,000 persons a year, or nearly one-fifth of its membership. About 20 per cent. of those examined have been found to be suffering from one or other of the above-mentioned maladies in a curable stage: tuberculosis, 7.1 per cent.; cardio-vascular disease, 5.4 per cent.; syphilis, 9.0 per cent. In Germany, where it is pension insurance rather than sickness insurance which takes care of tuberculosis, an instruction was issued just before the present war by the National Insurance Office, laying down guiding principles for the detection and treatment of tuberculosis; the instruction

advised pension insurance institutions to carry out a radiographic examination of the entire insured population of selected municipalities.

The duration of medical benefit is, as a rule, the same as that of sickness benefit, *e.g.*, 26 weeks for any single illness. But since incapacity may not set in until some time after the beginning of the treatment, it is provided that medical care should continue until the right to cash benefit is exhausted.

In several countries a longer maximum period is provided for in order that treatment of such protracted diseases as tuberculosis may not be interrupted. Only in Great Britain, however, is medical care — of a simple character it is true — continued without any limit of time, for the chronically invalid as for those still acutely ill. Germany, by a very recent measure, has removed the limit on the duration of medical benefit, and the patient who does not leave the field of insurable employment permanently, as an invalid or otherwise, is always entitled to treatment.¹

The financial resources of compulsory sickness insurance are limited. In the last 30 years the typical contribution rate in Europe has risen from 2½ to 5 per cent. of wages and evidently cannot be increased much beyond the latter figure. Therefore sickness insurance can hope to keep its medical service abreast of medical progress only by a continuous effort of rationalisation. In this effort it encounters the obstacle of the traditional individualism of medical practice, which is firmly upheld in many countries by the doctors' associations. Medicine is a liberal profession, and, while an increasing proportion of doctors have been accepting salaried positions in public health administration, the majority, following the leaders of their associations, have vigorously withstood the attempt of sickness insurance to regiment them in a salaried service. The doctors' associations have accepted co-operation with compulsory sickness insurance on two main conditions: first, that sickness insurance should confine its benefits to the class which had hitherto been unremunerative and which had owed much of its treatment to an honourable tradition of charity upheld by a minority of doctors, and secondly, that insurance practice should differ as little as possible from private practice and should be subject therefore to a minimum of control. Now private practice is still carried on mainly by doctors practising individually and it may well be that, even at the present day, individual practice

¹ Still more recently, by an Act of 24 July 1941, pensioners also became entitled to medical benefit.

can give satisfactory results in cases where expense is no barrier. Sickness insurance, however, must provide the best treatment it can for the money at its disposal. If it is obliged to organise its medical service on the basis of individual practice, it can only obtain a result which is inferior, not only in amenities, but also in efficiency, to that of private practice as exercised among the well-to-do.

In western Europe especially, the medical service of compulsory sickness insurance is organised very largely on the lines of private individual practice. The medical association negotiates with the federation of sickness funds the scale of remuneration and other terms of service for doctors engaging in insurance practice. Subject to any restriction which the medical association may impose to prevent overcrowding of the insurance service, all qualified doctors may participate, and the insured person enjoys in principle free choice among the doctors of the vicinity. The prevailing method of remuneration is by a fee varying with the nature of treatment afforded to the patient; but in Great Britain a uniform annual capitation fee has been adopted for its general practitioner service. Doctors, as a rule, carry on private as well as insurance practice, and they work individually in their own consulting rooms.

Economy in the organisation of the insurance medical service is an especially pressing consideration in countries where there is a very wide difference between the standard of living of doctors and that of manual workers, so that the cost of the service tends to be high when expressed in terms of wages.

In central and eastern Europe, the provision for specialist treatment at least has been rationalised. In the towns the sickness funds establish fully equipped clinics where salaried specialists attend daily in order to treat patients referred to them by general practitioners. Dental care is also given at clinics. In the rural areas a single salaried doctor may be employed by the local fund to treat all insured persons in a given district.

In Chile, and now in Peru also, the rationalisation of insurance practice has been carried further. All insurance doctors are employed — though not always full-time — on a salaried basis, and all ambulatory treatment is furnished at health centres by a group of general practitioners and specialists. To meet the extremely difficult problem of bringing medical care to sparsely populated rural areas, the insurance institutions maintain a service of travelling dispensaries to visit the sick at first-aid posts distributed over the country. Ambulances remove to the nearest health centre or hospital cases which need special care or

supervision. It may be added that in Peru, Ecuador, and Bolivia, the social insurance funds have begun to create a network of hospitals and clinics of their own in order to make up for the deficiencies in the national health equipment.

The group practice of medicine is not commending itself only to compulsory sickness insurance which, operating among workers with a low standard of living, must exercise the utmost economy: it is also coming to be regarded in the United States as the form of practice which is destined to predominate in the private schemes of voluntary insurance for the middle-class population. Substantial advantages indeed are claimed for group practice. Modern methods of diagnosis and treatment require an extensive and costly equipment of which only a group of doctors practising at the same centre can economically avail themselves; medical supplies, auxiliary staff, and overhead charges are likewise relatively cheaper for several doctors working together. The representation of different specialities within the group of physicians enables the diagnosis to be settled and the treatment to be prescribed efficiently and without loss of time for doctor or patient. Group organisation enables doctors to maintain one another's morale and to afford one another opportunities for further study and for leisure. The group system is not incompatible with the choice by the patient of a particular physician as his family doctor, giving general advice and co-ordinating treatment furnished by the members of the group. It is pointed out that the family doctor practising alone is disappearing in American cities, and that the public tends to run from one specialist to another without any guidance or without continuity or co-ordination in treatment. Group practice provides an effective check for this wasteful and dangerous tendency. The opposition of the medical profession to the rational organisation of insurance medical service is likely to be weakened by the gradual narrowing of the field of private practice. It is obvious that in Europe, at all events, the classes on whom the doctors relied to supply their private patients are disappearing. In parts of central and eastern Europe and in Latin America, these classes have never been large, while the supply of doctors has increased. In these circumstances the medical profession begins to consider more favourably the idea of a salaried medical service, general in scope. The Chilean doctors were probably the first to propose a comprehensive national medical service for the mass of the population. The fact is that once the whole employed population, wives and children included, is brought within the scope of compulsory

sickness insurance, the great majority of doctors, dentists, nurses, and hospitals find themselves engaged in the insurance medical service, which squeezes out most of the private practice on the one hand, and most of the medical care hitherto given by the public assistance authorities, on the other. The next step to a single national medical service is a short one and a bill to create such a service is now under consideration in Chile.

A national medical service is already in operation in New Zealand and in the Soviet Union, where every inhabitant is entitled to free medical attendance, drugs, and hospital treatment. In the former country no change has been made in the method of furnishing medical care, which remains that of individual practice; the doctor is refunded by the State a fixed fee per visit or consultation and is not legally entitled to additional remuneration from the patient.

(3) PENSION INSURANCE

Risks

Pension insurance covers old age and such invalidity and premature death as is not the liability of workmen's compensation. Each of these contingencies implies a period of need and of benefit that is to be reckoned in years, and, in practice, a qualifying period of insurance which takes account of the considerable value of the benefits in question. The pension movement was concerned primarily to meet the needs of the indigent aged, though already the German Act of 1889 dealt simultaneously with invalidity and old age. Old-age insurance, as it were, reaches down to link up with sickness insurance by means of invalidity pensions. Survivors' pensions in most countries follow the establishment of pensions for the insured person himself.

Old Age.

Old age may be considered either as the age at which a worker ceases to be useful or as that at which a worker has earned a final holiday with pay.

The economist regards old age as that age at which the worker should retire from employment because he is no longer fit to play a normal and effective part in the productive process. The worker, however, once he has the prospect of an old-age pension, looks forward to it as the escape from a lifetime of toil into a delectable condition of independence. He therefore wishes to be able to count upon receiving a pension at a definite

age, and this wish is unaffected by the fact that, when the day of retirement arrives, the worker whose faculties still match his job often finds he would like to continue his routine.

From the economic, as also from the medical, standpoint, old age is but a special case of invalidity, namely the decay that accompanies advancing years; accordingly, old age will set in at different ages from one trade to another and from one individual to another. The worker, on the contrary, demands that the pensionable age shall be fixed, and fixed, moreover, low enough to afford a fair prospect that he shall survive to enjoy his pension for a substantial period.

Old-age pensions are very costly, and in the compromise at which old-age insurance aims between the scientific and the all too human concepts, the former has by far the greater weight, and the latter is respected merely by the recognition of a definite pensionable age. In reality, general schemes of old-age pension insurance, as distinguished from schemes for small privileged groups, fix the pensionable age at not lower than the age at which the great majority of individuals become permanently unemployed.

The normal pensionable age has been set at 65 in almost all general schemes and in many special schemes for salaried employees; 60 or 55 years are allowed in some European schemes for miners, while even lower ages are found in several occupational schemes in Latin America. In the thirties a general reduction in the pensionable age to 60 was widely demanded as a means of relieving the labour market; this proposal is still vigorously supported in the United States (where the lack of invalidity insurance is an important factor), but considerations of cost and of the competing claims of other branches of social insurance have in most countries determined the rejection of the proposal. Indeed, in several Latin-American countries, the harsh reality of mounting pension expenditure has even caused the age to be raised from 60 to 65 in the schemes recently introduced or in course of preparation for industrial and commercial workers.

The fact that women become unemployable at an earlier age than men has been recognised by reducing the pensionable age for women from 65 to 60 in several European schemes for salaried employees and in the general schemes of Belgium and Great Britain (1940).

The option of taking a lower pension at an age below the normal (*e.g.*, 60 instead of 65) and without proof of invalidity, is afforded in a number of countries, notably in France (1941), Belgium, Brazil (commercial workers, 1940), and various salaried

employees' schemes. It is probable, however, that only a small minority of insured persons would find the lower pension sufficient for maintenance.

Withdrawal from insurable employment appears at first sight to be implied as a condition for the award of an old-age pension, but, in fact, it is found as a typical provision only in occupational or salaried employees' schemes which, like civil servants' superannuation, are designed especially to facilitate the retirement of their aged members, and accordingly pay comparatively ample pensions.

Among schemes for employed persons generally or for manual workers, only those of the United States and Czechoslovakia impose this condition. In France and Rumania a much higher pension is awarded if the beneficiary gives up employment. Elsewhere, the fact that the pension of the wage earner is commonly much smaller than his wages, and may hardly suffice for subsistence, makes it impossible to insist upon retirement, and the pensioner is allowed to eke out his pension with any wages he can still command; the proportion of pensioners who are able to retain their employment is so small that the saving resulting from the suspension of their benefits would be heavily outweighed by the increase which would presumably be called for in the pensions of those who are unemployed, willingly or not.

During the last decade, two opposing policies have contested the domination of old-age insurance, with fortunes that varied with the current employment situation. When it has seemed hopeless to expect the elderly unemployed ever to be reabsorbed into industry, great pressure has been exerted to lower the pensionable age. When employment improves, and especially when war makes labour scarce, elderly workers and even old-age pensioners find work again, and it looks as though the pensionable age might even be raised if only the boom could be continued into peacetime. Some observers, who take a long, as well as a broad, view of social policy, are anxious to limit the rapidly growing charge of old-age pensions by enabling or inducing as many persons as possible to remain in industry even after age 65.

Invalidity.

The invalidity pension is the link between the old-age pension and the sickness benefit, and accordingly invalidity embraces a range of states extending from prolonged sickness to premature old age, from the specific infirmities ensuing upon

disease or injury or the incapacity accompanying chronic illness to the general decay of bodily powers.

Invalidity is incapacity for work which appears to be permanent or, in countries possessing compulsory sickness insurance, incapacity which persists after sickness benefit is exhausted. The definition, it will be seen, consists in the relationship between the remaining physical and mental ability of the individual, on the one hand, and the physical and mental qualifications for work of some kind on the other, *i.e.*, in the ratio of one quantity to another. Assuming that the first term, the ability of the individual, can be ascertained, it remains to decide the maximum ratio that involves award of a pension and the kind of work taken as standard. In other words, the question is what degree of incapacity is pensionable, and in relation to what occupation or range of occupations the incapacity is to be assessed.

The German Act of 1889 establishing invalidity and old-age insurance for manual workers formulated a definition which has become classic and has been adopted almost universally by the other European countries for their insurance schemes covering manual workers or employed persons generally. An invalid is a person who is incapable of earning, in an employment suited to his strength and ability which can reasonably be assigned to him in view of his training and previous occupation, as much as one-third of the sum usually earned by physically and mentally sound persons of the same kind with similar training in the same neighbourhood. Occupational schemes for miners, seamen and railwaymen, and salaried employees' schemes, in Europe and Latin America, mostly use another criterion: incapacity for one's former job or for any other job which implies a similar social and economic status and is in the same field. Broadly speaking, the occupational schemes for manual workers require total incapacity, while salaried employees' schemes grant a pension if the capacity is reduced by half. In Great Britain, invalidity, under the general scheme, means total incapacity for any kind of work which the insured person might reasonably be expected to undertake, and the invalid may not supplement his benefit by any remunerative work at all.

The assessment of incapacity is a simpler affair in invalidity insurance than in workmen's compensation, in that invalidity insurance, save in the Soviet Union, does not admit of degrees of invalidity, and the pensions are not graded. Invalidity insurance has to do mostly with cases of disease, whereas

workmen's compensation is mainly concerned with injuries affecting a definite part of the body : a graduated estimate of incapacity may be plausible in a case of local injury, but not in a case of constitutional disease. For that matter, the invalidity pensions paid under wage earners' schemes are, as a rule, so small that the payment of partial pensions to the semi-disabled could have little significance. In the Soviet Union three grades of incapacity are recognised, for the purposes of invalidity insurance and accident insurance alike.

Whenever a pension is refused to a seriously incapacitated person on the ground that he is fit for work of some kind, the question is bound to arise whether in fact work of the kind specified is available. This question also arises in workmen's compensation, but it is socially more important in invalidity insurance because the number of cases of serious incapacity with which the latter has to deal is much greater. It is a question of which invalidity insurance has always been afraid — about which it has always had a bad conscience. The problem was already foreseen in Germany when invalidity insurance was introduced : it was expressly stated that the risk of unemployment was excluded. In reality, it is impossible to exclude consideration of the availability of the specified kind of work from the invalidity award, and this was abundantly proved by the experience of invalidity insurance during the severe unemployment of the early thirties. In the absence of unemployment insurance, there is a very strong pressure to award invalidity pensions to individuals who could work but whose chance, with their physical handicap, of finding work within the narrow range suitable to them is negligible in a labour market already overcrowded by the able-bodied. Where unemployment insurance exists, and, as in Germany, its definition of incapacity for work is complementary to the definition of invalidity, the co-ordination secures that the physically handicapped do not fall between two stools, subject, however, to the limitation in time of unemployment benefits. The care of workers who become unemployable is a function proper to social insurance, but the principles according to which their respective responsibilities are allocated to invalidity insurance and unemployment insurance remain to be worked out. *Prima facie*, it would seem that invalidity insurance must be induced to make every effort to restore or mitigate physical handicaps, and that unemployment insurance and the connected employment service, for their part, must strive, more systematically than hitherto, to find places in industry for the partially disabled.

Premature Death.

Premature death, from the standpoint of pension insurance, means the death, not merely of a producer, but of the breadwinner of a wife and of children still too young to support themselves. It means also the death of an invalidity or old-age pensioner if he leaves survivors who, at least in part, were dependent on his pension.

The risk is therefore defined essentially by the description of the survivors who are entitled to pensions as dependants. The widow and the minor children are of course, in every scheme, the main beneficiaries, but numerous laws in Europe and Latin America include the invalid widower as well if he was in fact supported by his deceased wife.

The chief differences among the schemes consist in the varying stringency of the condition of dependency to be fulfilled by widows. In almost all schemes for manual workers or employed persons generally, a widow is only pensionable if she has children to support, or if she is an invalid, or if and when she reaches the age of 65 (50 in New Zealand). But in the general schemes of Great Britain and Belgium, and in most occupational and salaried employees' schemes, the widow is entitled to a pension unconditionally.

The age up to which pensions are paid for children and orphans cannot, of course, be lower than the school-leaving age or the minimum age for entering employment, and in most countries it is higher than these — 16 under general schemes and 18 under salaried employees' schemes are typical figures. It is highly satisfactory that an increasing number of schemes allow the prolongation of the pension for two or three years in order to enable the children to complete their education or training.

Cash Benefits

The cash benefits of invalidity, old-age and survivors' insurance are of course essentially pensions. Lump sum payments, if provided for at all, play an inconsiderable part: funeral benefits in exceptional cases where they were not paid by sickness insurance, dowries to women leaving insurance on marriage, refund of contributions where the deceased did not qualify for pension, etc. The old-age pension is a life annuity. The invalidity pension may have three degrees of permanency: a mere substitute for exhausted sickness benefit, where medical treatment is being continued with the expectation of recovery; a pension subject to review at long intervals to take account of

possible improvement; and, in some laws, a permanent pension, confirmed when no prospect of recovery remains. Pensions to orphans and widows' children continue until the child reaches the age when he is deemed able to earn his support. Widows' pensions cease on remarriage, but, as in most general schemes, they may also be suspended during the years which elapse between the termination of the youngest child's pension and the widow's attainment of the pensionable age.

In all pension insurance schemes which are not universal in their application, it is necessary to provide for qualifying periods of insurance as a means of eliminating bad risks, especially those individuals who enter insurable employment *pro forma*, as early candidates for one or other of the pensions: a scheme intended for, and partly financed by, wage earners cannot be expected to shoulder a burden which belongs to society at large. The qualifying period for an invalidity or survivor's pension varies from two to five years, the variation being presumably determined by the diverse opinions of actuaries as to the time needed to test the genuineness of the employability and employed status of the individual. The qualifying period for an old-age pension without previous invalidity is frequently much longer — 10, 15 or 20 years — since this pension is regarded as a benefit to be earned rather than as an indemnity to be insured for. Nevertheless, a certain number of general schemes are content with the same period as is prescribed for invalidity and survivors' pensions. Once the qualifying period has been completed, sufficient regularity must be maintained in the payment of contributions to demonstrate the continuing genuineness of the employed status of the individual and to keep up that average level of contribution income which is postulated by the benefits promised. If the irregularity of contributions is due to sickness, proved unemployment or military service, it is excused in a growing number of pension schemes, especially those which are paralleled by sickness and unemployment insurance.

The pension rates for the three contingencies are necessarily interdependent. The invalidity pension should not be greater than the old-age pension substituted for it when the pensionable age is reached: it may be the same as the old-age pension, but preferably it should be less, so that there remains an inducement to continue at work at least until the pensionable age is reached. In Denmark and New Zealand the invalidity and old-age pensions are identical, but the Danish old-age pension is increased for each year that the claim is deferred beyond the pensionable age. In the British system, although there is no organic relation-

ship between the rates of invalidity and old-age and survivors' pensions, they are almost equal. Following the German precedent, the great majority of pension schemes provide for an invalidity pension which, starting from a minimum substantially lower than the normal old-age pension, gradually approximates to the latter in proportion to the time spent in insurance, and coincides with it when the pensionable age is reached before invalidity occurs. In these schemes the survivors' pensions are calculated in terms of the pension which the deceased was receiving or to which he would have been entitled if he had been an invalid at the date of his death; the sum of the survivors' pensions can in no case exceed the corresponding invalidity or old-age pension.

The invalidity pension affords thus a rational basis or norm from which the old-age or survivors' pensions are derived. From the social standpoint this principle appears to be sound, and the adequacy of the invalidity pension is seen as the main criterion of the efficacy of a pension insurance scheme. A scheme which, even for the person who becomes permanently and totally incapacitated in the early years of his working life, provides a pension that will maintain him and his dependants is performing its essential function. In reality, invalidity pensions in schemes for manual workers or employed persons generally are quite insufficient for maintenance unless the invalidity sets in late in middle life, and survivors' pensions are on a corresponding scale. Only the old-age pension, after thirty years or so of insurance, approaches adequacy for maintenance. In the retirement schemes for certain occupations and for salaried employees in Europe and Latin America the level of pensions is considerably higher.

The great problem of general schemes of pension insurance is to secure benefits characterised by socially adequate invalidity pensions, irrespective of the age of the beneficiary. The root of the problem is, in every country, financial: the great cost of adequate pensions, and the great difficulty, political as well as economic, in meeting that cost. But apart from that, there are difficulties arising from the implications of the insurance principle as interpreted in a given time and place. Again, the major premise that pension insurance should provide benefits at least sufficient for maintenance may not even be admitted.

The majority of pension schemes for wage earners or employed persons generally provide for a composite pension consisting of a basic sum, which is due to every claimant who

has completed the qualifying period, and a supplement. The basic sum is either uniform for all pensioners, as in Germany, or a fraction of the average wage of the individual, as in the United States. The supplement is a fraction of the total contributions paid in respect of the individual in the course of his insurance career, the contribution being a percentage of his wages. The entire pension is thus the combined result of two modes of thrift, the basic sum being provided by insurance (as typified in life insurance) and the supplement by saving. The idea of such a composite pension is attractive, for it suggests a minimum of subsistence for all, augmented, in the case of the more fortunate, healthier or better-paid workers, by supplements bringing the bare minimum nearer to their accustomed standards of living. The reality is different. The basic sum is far below subsistence level, and only after some thirty years of working life does the composite pension in most cases attain a substantial amount, *e.g.*, 40 to 50 per cent. of average earnings.

In Great Britain another conception of the purpose of compulsory insurance has predominated. It was never intended that invalidity, old-age or survivors' pensions should suffice for maintenance, but should afford a substantial foundation and encouragement for individual thrift, whether by way of private supplementary insurance or by way of saving. The British pensions consist entirely of fixed sums, independent of the number of contributions paid, the contributions themselves being fixed and independent of wages. They are certainly below the subsistence level: even so, they were higher than the average pension paid by the German wage earners' scheme after 40 years of operation — in 1931, for example, the last year in which both currencies were on the gold standard. In 1940 Great Britain introduced supplements, proportioned to need, in order to bring the old-age pensions up to the minimum of subsistence, and to avoid possible recourse by pensioners to poor relief. The Swedish and Finnish national schemes of pension insurance provide for a somewhat similar structure of insurance pension supplemented by assistance pension.

In Denmark and New Zealand, the national invalidity and old-age pensions exemplify the actual integration of the insurance and assistance principles. The leading purpose in these countries has been to provide a pension which is sufficient in itself for existence; it is paid in its entirety to persons of limited means, but is reduced in other cases. Under these schemes the democratic idea of applying an identical procedure to all citizens achieves full realisation.

A pension which is intended to maintain the beneficiary must be varied to follow changes in the cost of living. Only the Danish law makes positive provision for such adjustment. Elsewhere the alteration is often effected tardily and convulsively by legislation instituting extraordinary subsidies. The fact is that, in so far as a pension incorporates an element of savings, changes in the cost of living cannot be taken into account directly. Nevertheless, such changes are reflected in the level of wages, and, as contributions are usually proportional to wages, the future pension is modified indirectly and, if the changes are small, sufficiently. If the basic sum embodied in composite pensions can also be varied according to the general level of wages, the adjustment of the future pension will be even closer. The Polish manual workers' scheme of 1933 provided for such an adaptation of the basic sum. A Bill now under consideration by the Chilean Congress would apply the idea of a flexible basic sum even to pensions already granted. The Bill proposes that the minimum pension (to which supplements will be added, varying with the contributions paid by the insured person, and also children's allowances) shall consist of whichever of the following two amounts is higher in the particular case: (*a*) one-quarter of the average monthly wage earned by the pensioner during the last sixty months of insurance, that is to say, an individual amount fixed once for all; (*b*) three-fifths of the average insured wage of all persons contributing to insurance during the immediately preceding year, that is to say, an elastic amount following the general movement of wages. For reasons of administrative expediency, any adjustment of the minimum pension calculated according to method (*b*) will take place only if the positive difference in the pensioner's favour is not less than 10 per cent., and then only six months after the end of the year in which such a difference is observed. The idea is clear: the minimum pension varies with the last individual wage but is never less than a specified proportion of the general average wage of all contributing members during the immediately preceding year.

In order to relieve the exiguity of invalidity and old-age pensions in cases where more than one individual has to be supported, an increasing number of countries — to which the United States is the latest addition — provide dependants' allowances. In Belgium and France the family allowance is added as a matter of course to the old-age pension. In several European countries, bonuses of 10 per cent. of the pension are added to the main pension for each dependent child. In Great

Britain, New Zealand and Denmark, allowances for the aged wife of an old-age pensioner are equal or nearly so to the pension itself; in the United States the allowance is half the pension.

(4) UNEMPLOYMENT INSURANCE

Risk

Unemployment — the inability of the able-bodied to find employment — is a condition created by, and inherent in, an economic system based on free enterprise: it reflects the instability which is a necessary feature of that system and is part of the price that must be paid if production is to evolve uncontrolled, exploiting new techniques and inventions and adapting itself to changes in demand, in competitive pursuit of profit.

Industry even needs a standing army of unemployed, moderate in size and changing in composition, as a reserve of labour to draw upon at will. Ideally, when business is prosperous, the reserve is small, and should be reduced to little more than workers passing from one job to another. During a depression, on the other hand, the reserve will mount up, and unemployment will be characterised by sheer waiting for things to improve. Apart from cyclical fluctuations, there are catastrophes due to loss of foreign markets or to new inventions, whereby entire branches of industry may be condemned to rapid decay, and workers to chronic idleness. Again there are industries which are seasonal in their operation, and others, like public works contracting, the activity of which is desultory. Unemployment therefore is a condition that presents itself in a variety of modes, each of which, in theory at least, demands some differentiation in social treatment.

Society has a broad general responsibility for affording every individual a reasonable opportunity to earn a living or maintaining him in default, to which duties of course must correspond the right to resort to ultimate measures, such as the over-riding of personal preference in the choice of occupation or the coercion of the idle. Unemployment insurance accepts a more limited liability: it covers, except in periods of severe depression, the greatest part of unemployment by means which interfere as little as possible with the personality of the individual, but the rest it leaves to other social services.

In order that it may be insurable, a risk must be predictable: an insurance scheme with resources supposed closely limited cannot contract to pay benefit in unforeseeable amounts. Experience in the past decade showed that unemployment

may attain the dimensions of a catastrophe, and in spite of all efforts it may do so again. Unemployment insurance rejects responsibility for the catastrophic sector of the unemployment field and confines itself to unemployment which, averaged over a certain period, does not exceed a moderate volume. It thus obtains a credible basis for its contribution-benefit arrangement. But unemployment insurance has also to deal with a moral hazard of its own creation, more serious than arises in other branches of social insurance, and requiring rather elaborate precautions for its control.

The risk covered by unemployment insurance is essentially temporary unemployment, not caused or continued by the fault of the worker, or by physical handicaps involving the responsibility of other branches of social insurance.

Cash Benefits

Unemployment insurance imposes strict qualifying conditions for the grant of cash benefit. In the first place, the claimant must show that he is a person whose normal occupation is the exercise of an insurable employment, and for that purpose the test is a minimum density of contributions, for example 52 weekly contributions in the last two years; the same test secures that the claimant has earned, as it were, a share of the insurance fund. He must not have lost his job by misconduct, or left it voluntarily or in consequence of a trade dispute. He must be able and willing to perform some kind of work which he has a reasonable expectation of obtaining — ordinarily his usual work, at the current wage. He is required to attend the employment exchange at frequent intervals while in receipt of benefit.

Nearly all the schemes of compulsory unemployment insurance known to be actually in force at the present time (several European schemes may be out of action) have been established very recently or reformed within the last few years — Canada (1940), Great Britain (1935 and 1940), Italy (1939), New Zealand (1938), Norway (1939), South Africa (1937), United States (1935-41). Examination of their benefit structure reveals a tendency to weight benefits in favour of the more necessitous claimants, to a degree much more marked than is typical of the comparable benefits of sickness insurance, which is a considerably older branch. Thus, the ratio of the maximum to the minimum rate of benefit is not more than three to one in most of these schemes (including 17 of the 50 American laws), whereas ratios of the order of ten to one are found in sickness

insurance schemes. This effect may be achieved either by prescribing as benefit a percentage of the wage that decreases as the wage increases (*e.g.*, from 60 per cent. of the lowest wage to 40 per cent. of the highest, as in Canada), or, while applying a uniform percentage, by prescribing a relatively high minimum, as in the American laws referred to. This policy of flattening out the benefit scale is (except in the United States and South Africa) accompanied by that of granting dependants' allowances, which in some schemes are substantial and, for large families, may even be more than the principal benefit.

All unemployment insurance laws impose a waiting period of non-compensable unemployment which must elapse before benefit can be claimed. The waiting period is, in almost every law, longer, even much longer, than is imposed in sickness insurance: 7 days is the usual figure, but in American laws periods of two or three weeks are the rule.

The maximum duration of unemployment benefit is, in most schemes, less than the 26 weeks typical of sickness insurance. Though unemployment benefit may be as much as 26 weeks within a year, in Great Britain and South Africa, and is indeed paid without limit of time in New Zealand, yet in most of the other schemes, the maximum duration lies between 15 and 20 weeks. Moreover, it is a feature frequent in unemployment insurance, but peculiar to it, that the number of weeks of benefit should in no case exceed a certain fraction of the number of weekly contributions paid during a previous base period, *e.g.*, $\frac{1}{3}$, $\frac{1}{5}$ or $\frac{1}{6}$; in Great Britain this check only applies where it is a question of continuing benefit beyond 26 weeks.

Benefits in Kind

In unemployment insurance placement has the same relation to unemployment benefit as medical care has to sickness benefit in sickness insurance. Unemployment insurance must work in the closest collaboration with the public employment exchanges, which, in almost all compulsory schemes, administer the benefit. The exchanges endeavour to acquaint themselves with all vacancies in their localities; they classify the unemployed according to their trades and skills, and arrange for suitable candidates to be interviewed by employers. Persons in receipt of benefit are required to attend the exchange at short intervals in order to prove that they are available for work.

The functions of an employment service involve the most careful consideration of individual cases, particularly those in which there is special difficulty in placement. The exchanges

require a well-trained staff, imbued with the idea of service to its clients and behaving with tact and understanding. They must be in close contact with one another, so that persons who have no reasonable prospect of work in their own locality may be offered vacancies in another locality where there are no suitable candidates. The exchanges must exert themselves especially on behalf of the physically handicapped and persons who need to change their trade: they must therefore have at their disposal services for vocational guidance and training.

CONCLUSION

Recent changes and trends in the benefit provisions of social insurance, in all four branches, are characterised, not by novelty, but by the pursuit of older purposes with increased vigour. They spring from a deeper and more widespread understanding of the potentialities of social insurance as a means of raising, surely and continuously, the average level of the well-being and efficiency of the mass of the population.

Social insurance weaves more closely the mesh of its protection against lapse into destitution. It has long been usual to maintain the insurance rights of persons unable to contribute through sickness. Similar privileges have been awarded to the unemployed where severe and prolonged unemployment would have led to massive loss of rights, and when the employment exchanges, necessary to certify the worker's predicament, had been established. Thus, in the more highly developed systems, the unemployed have been able to claim the benefits of sickness insurance and the sick to retain their status with the unemployment fund in case of inability to find work on their recovery; while both unemployed and sick have been keeping undiminished the rights they are acquiring with pension insurance. Access to minimum pensions has been facilitated, on behalf of older workers especially, by a generous shortening of the qualifying period. In accident insurance, the conception of occupational risk has been stretched to comprise the widest range of diseases, especially in countries where sickness insurance is still lacking, injuries on the journey to and from work have been included, and, final step, which only two countries yet have taken, all accidents, occupational or not, are compensated by similar indemnities.

This last example can also be cited as an instance of another important trend in benefit policy, which is much more widely illustrated in recent legislation. That is the tendency to attach greater weight to the presumed need of the case in

determining the scale of benefit, and less to juridical considerations or those of actuarial equity. The needs of wageless individuals are to be measured, not so much by the rates of their previous wages as by the number of their dependants. Social insurance has understood that it must concern itself with the family rather than the individual if its resources are to be used to the greatest advantage for society. Accordingly, dependants' allowances are being introduced in an increasing number of countries, especially in connection with invalidity and old-age pensions, the level of which is commonly very low, and with unemployment benefit as provided by most of the modern schemes. In countries where a general scheme of family allowances is in force, the allowance in most instances attaches to the insurance benefit as it does to the wage. Lastly, survivors' pensions have, during the last few years, been introduced in several countries which formerly provided invalidity and old-age pensions only.

It is, however, in the field of medical care that social insurance has made the most extensive contribution to family welfare. In continental Europe, before the present war most sickness insurance schemes were providing medical benefit as a matter of course for the wife and children of the insured person, and so bringing the great majority of the population within a system of organised medical care; a small but increasing number of countries even extend the privilege of medical benefit to pensioners. Growing importance is being attached to the preventive aspects of medical care, especially by affording continuous supervision to expectant and nursing mothers and to infants. In this connection the far-reaching plan of the Chilean insurance fund to combat social diseases by periodical medical examinations opens a new phase in the development of the health policy of social insurance.

Just as preventive medicine emphasises the importance of the initial stage of medical care, so rehabilitation consists in the elaboration of the final stage, and, where necessary, in the prolongation of assistance, with the collaboration of the employment service, until the patient finds his place in industry again. In only a few countries, however, has social insurance exerted itself to apply for the benefit of civilians the experience in rehabilitation gained in the First World War, and such rehabilitation services as have been developed have been mainly reserved for the victims of industrial accidents. The federal scheme of rehabilitation in the United States is essentially a special branch of social assistance, and so is the new British scheme for

the training of the disabled for munition work. No scheme of invalidity insurance or workmen's compensation, however, can consider its functions fully discharged until, by forging an organic link with the employment service, it has done its utmost to restore the disabled to productive life.

D. Finance

The genesis of social insurance or other form of social security service may be regarded as a process in three phases. First, there is the perception by society of an economic need among its members which, for its own preservation or progress, it must meet. Second, there is the discrimination of the parties to whom the financial responsibility for the needy members can be attached. Third, there is the question of the measure in which the need is to be met, having regard to the allocation of responsibility, and to the economic abilities and political strength of the parties laid under contribution. The financial provisions of a social insurance scheme result from the second and third phase.

(1) THE CONTRIBUTING PARTIES

We have seen that all social security services stem from primitive forms that embody principles so ancient that their validity has become axiomatic. These primitive forms are the general responsibility of the master for the servant, the mutual aid practised within occupational and other limited groups, and, subtended under these, the broad and vague responsibility of the community for its members. When the earliest legislation on workmen's compensation, sickness insurance and pension insurance came to be drafted, it seemed natural to invoke these principles.

It is in workmen's compensation that the incidence of responsibility is most firmly and uniformly established: the liability for compensation rests solely with the employer. In the early nineteenth century, individualism was in its heyday, and the notion of the employers' social responsibility was in abeyance. The injured worker's only remedy was therefore the largely ineffectual one of suing the employer for damages where the latter's negligence might be involved. Towards the end of the century, public opinion had been moved to the realisation that uncompensated industrial accidents are a social problem. It was then that French jurists, adapting a precedent of Roman law, produced the principle of occupational risk,

according to which the employer, as initiator and controller of the undertaking, is liable, irrespective of fault on either side, for accidents which, as it were, naturally occur in its working. The principle carried conviction as being juridically acceptable and pragmatically sound, and has been universally adopted, whether the scheme be based on the individual or the collective liability of employers.

In Germany, however, where the idea of compulsory social insurance was already seen to be practicable, a measure requiring the worker to contribute to accident insurance was put forward by Bismarck. It was rejected, and the cost of accident insurance was placed entirely on the employers, but the principle that the worker should bear part of the cost of compensation found attenuated expression in the obligation of sickness insurance, to which the worker contributes, to bear the cost of compensation during the first 13 weeks of incapacity. The same arrangement was adopted in Denmark and several central European countries. It is interesting to note, however, that in Germany the period of the responsibility of sickness insurance was decreased a few years ago to 6 weeks. These are the only instances in which the workers bear part of the cost of compensation. It may be added that in Denmark the State pays part of the accident premium due from small employers, and that the administrative expenses of the State mutual insurance funds are, in certain instances, borne by the State.

For the financing of the other three branches — sickness, pension and unemployment insurance — no such clear juridical principle has been developed as for that of workmen's compensation. Nevertheless, a broad uniformity of practice has been brought about as a result of a combination of considerations of administrative, financial and political feasibility; these considerations are supported by arguments which, starting from a variety of premises, arrive at similar practical conclusions.

This uniformity is the result of the almost universal adoption of the device of the joint contribution of worker and employer, which was used in local schemes of compulsory sickness insurance in Germany a century ago. The importance of this device for the development of social insurance was fundamental. Irrespective of any theoretical arguments, it is evidently much easier to persuade employers and workers to agree to share a charge than it is to impose it wholly on one or the other. Moreover, the joint contribution can probably be fixed at a higher sum than could conceivably be obtained from either party alone. The contribution may indeed suffice to cover the entire cost of the

scheme, particularly if it is a question of sickness insurance, and the Government may thus be able to float the scheme without having to go to the taxpayer for money. But the joint contribution has other merits. It is relatively easy for the insurance fund to collect the joint contribution from the employer and for him to deduct the worker's share from wages. At one stroke the joint contribution renders compulsory insurance feasible for the mass of industrial wage earners, who constitute just the class that has the greatest need of it.

Almost universal is the State subsidy to pension insurance, which, in its commonest form of a minimum basic pension, originated in the German Act of 1889. In the field of compulsory unemployment insurance, the example of the British Act of 1911, with its tripartite contribution, seems to have exercised an extensive influence.

The following generalisations may be ventured as regards schemes which apply to manual workers or employed persons generally.

Almost all pension and unemployment insurance schemes are maintained by contributions from workers, employers and the State. Notable exceptions include the American unemployment schemes, financed by employers only, the Netherlands and Spanish pension schemes, financed by employers and the State, and the Greek pension scheme and Italian unemployment scheme, financed by workers and employers. It will be noticed that an employer's contribution is provided for in every case.

The majority of sickness insurance schemes are supported by workers' and employers' contributions. For this branch the fashion was set by the German Act of 1883. Where sickness is covered by a law which provides for pensions also, the State subsidy is generally earmarked for the pensions, but this is not the case for Chile (1925 Act) or Peru. In Great Britain, Eire, and Norway, sickness insurance as such receives a substantial grant from the State. In the Soviet Union the cost of temporary incapacity benefits is borne entirely by the contributions of the undertaking.

Turning to special schemes, providing pensions as their main or sole benefit, for salaried employees or for occupational groups, we may observe that insured persons and employers contribute in all cases, but that no rule or tendency appears to govern the participation of the State. In Brazil the constitution prescribes equal, tripartite contributions for all social insurance schemes, whether occupational or not, while in Argentina the State has guaranteed the payment of railwaymen's pensions but

not those of public utility workers. Salaried employees' schemes are subsidised by the State in Belgium and Hungary, but not in Czechoslovakia or Germany, and so on.

Of the five national insurance schemes, three (New Zealand, Norway, Sweden) are financed by contributions of citizens, as prospective beneficiaries, and by subsidies from general taxation; while two (Denmark, Finland) impose certain charges on employers as such besides.

As regards the proportions in which the several contributing parties share in the cost of insurance, one broad generalisation can be formulated: that, where both workers and employers contribute, their shares are equal, whether or not the State contributes as well.

There are, however, important exceptions, particularly in the most recent legislation. These exceptions, having regard to the dates of the laws concerned, suggest a tendency to increase the employer's share and decrease that of the worker.

The German sickness scheme of 1883 charged two-thirds of the cost to the worker and one-third to the employer; moreover, the sickness scheme paid the temporary incapacity benefit in case of industrial accident. This arrangement had been used in local schemes already thirty years earlier which covered temporary incapacity, whether due to sickness or accident. It has persisted down to the present time, though an Act of 1933 has authorised the Government to equalise the shares of the contribution. The same arrangement was adopted in Luxembourg and Austria; the latter country, in 1935, established a single contribution, equally shared, for all four branches of social insurance. In Norway, since 1909, three-fifths of the cost of sickness insurance has been borne by the worker. No wage earners' sickness scheme of more recent date has provided for a worker's contribution higher than that of the employer. There is but one wage earners' pension scheme — that of Poland (1933) — in which the insured contributes more than his employer, the difference being equal to the average accident premium paid by industrial employers. Higher employers' than workers' contributions are found in several general schemes of sickness and pension insurance combined (Chile, 1925; Greece, 1932; Peru, 1936) and in the unemployment schemes of Poland (1933), Norway (1938), South Africa (1937) and, save for the highest wage classes, Canada (1940). Several instances are indeed to be found of a sharing of the contribution that varies with the wage class; these represent an extension of a principle much more frequently applied, namely, that the employer should.

pay the entire contribution in the case of apprentices or workers with exceptionally low wages. For example, in the Canadian unemployment scheme, and in social insurance for non-manual workers in Poland, the employer's proportion of the joint contribution decreases gradually from the lowest to the highest wage class, while the worker's contribution obeys the inverse rule.

The State subsidy to social insurance may assume either of two typical forms. It may be granted in aid either of the general revenue of the scheme or of certain benefits (or even administrative expenses). As examples of the first form may be cited the subsidy equal to half the contributions, in the sickness and pension insurance of Brazil, Bulgaria and Peru, and in the unemployment schemes of Great Britain and Poland. The payment of certain benefits directly out of State funds is very frequently illustrated in pension schemes where the State undertakes to add a uniform amount to every pension. In Great Britain the State meets the entire deficiency arising in the finances of sickness and pension insurance from the fact that contributions are calculated to cover the risk of persons entering insurance at the age of 16, whereas all persons entering at that, or any later age up to 60, receive the same benefits; in addition, the State bears the entire cost of pensions from 70 upward. In the Soviet Union the State and local budgets bear the cost of pensions for the aged, the totally incapacitated and survivors.

The State subsidy is, as one might expect, very considerable in the national insurance schemes, partly to make up for the lower rate of contribution, partly because the universal scope of the scheme justifies a fuller measure of aid from public taxation. Thus, the Swedish pension scheme is supported to the extent of two-thirds out of public subsidies.

(2) CONTRIBUTION AND RISK

Equality between the premium and the probable benefit is of the essence of insurance, and private insurance endeavours as far as is practicable to adjust the premium to the value of the individual risk. Social insurance, because it is insurance, takes account of this principle; but because its purpose is social, it must also have regard to the social adequacy of its benefits and seek to prevent destitution in the largest possible number of cases. Social insurance has to find a balance between these diverse motives, a balance which can only be arbitrary, and shifts according to change in public opinion. Social insurance, in view of its duty to abate by all available means the loss that it has to indemnify, must consider whether the premium can

be so manipulated as to afford an incentive for the payer thereof to reduce the risk in question. Such manipulation is called merit rating.

The risk that an individual introduces into social insurance varies with his susceptibility to disease, accident and unemployment, and important indications of the degree of risk are age, sex and occupation; if his insurance provides benefits for his dependants also, their number, age and sex are significant. How far does social insurance take account of these degrees of risk in the relation which it establishes between contribution and benefit?

The grouping of workers by occupation, each occupation covering its own risk, is exemplified in all branches of insurance: special pension schemes for salaried employees, miners, railwaymen, etc., separate social insurances for industry and agriculture, grouping by occupational risk classes within schemes of workmen's compensation (all countries but Rumania), temporary incapacity insurance (Soviet Union) and unemployment insurance (South Africa). The trend of the development of social insurance organisation is, however, towards the massing of the working population in general, inter-occupational schemes, workmen's compensation alone being left to vary the contribution according to the specific risk of each occupation.

Whether the scheme is general or occupational in its scope, the prevailing rule is that the contribution rate is unaffected by the age, sex or family responsibilities of the worker concerned, whereas these factors do affect a wide range of benefits, and so likewise does the record of the claimant as contributor and beneficiary. The manner and degree in which benefits are affected varies from one branch of social insurance to another, and among the several benefits of the same branch.

Social insurance limits its liabilities by fixing maxima for the rate and duration of benefit, and by reducing its clients to a select group. The selection is effected, firstly, by barring from entry into insurance persons whose advanced age marks them as immediate candidates for benefits; and secondly, by obliging insured persons to prove that they possess normal health and employability by completing a qualifying period of insurance before claiming benefit. The branches of insurance may be arranged as follows according to the increasing degree in which selection is effected: accident; sickness (age and short qualifying period or none); unemployment (age and medium qualifying period); pension (age and long qualifying period).

Within the select group of insured persons entitled to benefit if the loss insured against occurs, there remains, however, a wide

diversity of risk, as indicated by age, sex and family responsibilities. In contrast to private insurance, even as practised by mutual benefit societies, compulsory social insurance intentionally allows certain groups to make heavier claims on the benefit fund than others paying the same contributions. For example, elderly individuals and women are a greater charge on sickness insurance, while persons having dependants can procure for them the extensive medical benefits, allowances and pensions which social insurance provides for wives and children.

In social insurance the principle of equality between the premium and the probable benefit nevertheless finds a rational, if crude, application. Social insurance proceeds from the hypothesis that the vast majority of insured persons enter insurable employment straight from school and remain there as long as they are able; many young women will, it is true, leave employment on marriage, but their husbands are likely to be insured persons. The entrants into insurance traverse a typical or average history, making smaller demands on benefits at some stages, larger at others, and they pay a level premium throughout their insurance career.

But what of elderly entrants into insurance, who are at a disadvantage in pension insurance because the pension is affected by the number of contributions paid, so that they have a shorter time in which to contribute before invalidity or death is likely to occur or the pensionable age is reached? It is the general practice in pension insurance to reduce the handicap of elderly entrants by incorporating in the pension a basic sum which does not depend on the number of contributions paid. This basic sum is largely financed, in the case of elderly entrants, from the State subsidy and from the joint contributions paid in respect of younger entrants.

In the great majority of social insurance schemes, contributions are proportional, and uniformly so, to wages. The question now to be considered is whether high and low wage earners obtain proportionate returns for the contributions paid on their account.

In accident, sickness and unemployment insurance the contribution represents essentially the cost of current protection until the next contribution falls due, and the number of contributions previously paid does not, in principle, affect the rate of benefit. As a rule, the proportion of the contribution rate to the cash benefit rate is uniform. This proportionality is, however, often modified by provisions for minimum rates and dependants' allowances, while, in some recent schemes of unemployment

insurance especially, the benefit rate is graduated so as to favour low wage earners. Moreover, the contributions in accident and sickness insurance also finance medical benefits and administrative expenses, which are identical in content for high and low wage earners alike. Suppose, for example, that the contribution is 4 per cent. of wages, and that the sickness benefit absorbs one per cent. of wages and medical benefit and administrative expenses the remaining 3 per cent. Then the contribution of a worker whose wages are 100 is charged with only half as much for these latter services as that of a worker whose wages are 200.

In pension insurance the manner in which the contribution income is redistributed in favour of low wage earners is, in many schemes, difficult to trace, particularly where the scheme receives a State subsidy for general purposes. In certain schemes, however, the fact of redistribution is evident. Thus, there are several European schemes in which the pension consists of a uniform basic sum and a supplement proportional to the contributions paid in respect of the individual concerned, both the basic sum and the supplement being financed from the contributions (Czechoslovakia, Germany, Greece, Poland). Supposing that persons at different wage levels contribute over the same period the same percentage of their wages, then it is easy to demonstrate that the cost of the basic sum (like that of the medical benefit in sickness insurance) is shared by the contributors in proportion to their wage rates, and not in equal amounts as the uniformity of the basic pension might imply. Again, in Italy and the United States, much greater weight is assigned, in the calculation of the pension, to low wages than to high wages.

It thus appears that the contributions of low wage earners are, as a rule, insufficient to cover the cost of their benefits. The deficit is met by a transfer from the contributions of high wage earners and, where such is provided, by the whole or a larger share of the State subsidy. Social insurance laws and explanatory memoranda are reticent concerning the manner in which the contributions paid in respect of an individual are appropriated for the benefit of another whose need is greater. It seems safe to assert, however, that the high wage earner, in almost every scheme, obtains a full return for his share of the joint contribution. The extent to which the employers' share is used to help the needier beneficiaries — not only low wage earners, but also elderly entrants into pension insurance — depends in part on the presence of a State subsidy and on its

sufficiency. Thus, under the Belgian pension schemes, the joint contribution is credited almost entirely to the person in respect of whom it is paid, while a special State subsidy takes care of elderly entrants. Under the federal pension insurance in the United States, by contrast, the employers' share is heavily drawn upon on behalf of both low wage earners and elderly entrants in the absence of a federal subsidy.

There remains for mention the place of merit rating in social insurance. Merit rating is a device to encourage the reduction of risk. It proceeds from the hypothesis that the employer is able, to some extent, to control the frequency and severity of the losses in respect of which social insurance benefits are payable. Consequently, it affects undertakings individually, and not groups of similar undertakings. Merit rating is practised extensively in accident insurance and, in the United States, by numerous State unemployment funds.

As applied in accident insurance, merit rating respects the inequalities in risk among industries that result from differences in the processes, machinery, etc., characteristic of each industry. An average premium is established for each class of undertaking, and variations, up or down, are made in the premium charged to each undertaking, either according to the number and severity of the accidents that have occurred in it, or according to an appraisal of its equipment and organisation, special credit being given, for example, for the installation of safety devices. Highly technical methods are employed in the calculation of the debits and credits assigned to the individual employer, and the administrative expense involved is considerable. Merit rating can be applied only in a limited range of industries and fairly large undertakings. There is no doubt that merit rating has encouraged employers to reduce the accident hazard of their undertakings, both by installing better safety devices than the factory legislation requires and by carrying on safety propaganda among their workers. It seems likely, however, that such success as has been achieved is due not solely to the financial incentive of a lower premium, but also to the fact that the procedures connected with merit rating have focused the attention of employers on the possibilities of accident prevention and have educated them to an understanding of the savings, far exceeding the premium reduction, which a safety policy may procure. For, if accident insurance is not to fail in its function of pooling risks, the premium can only be varied within certain limits; moreover, only a fraction of accidents are such as can be avoided by preventive measures. American

experience suggests that the reduction of the premium in consequence of low accident frequency is only about one-quarter of the total savings accruing to the employer, since the disorganisation of production that accidents entail represents a considerable loss.

Merit rating, or, more exactly, experience rating, in unemployment insurance is found only in the United States, where it is a feature of most of the State schemes. These schemes are only a few years old, and must be regarded as still in the experimental stage. During an initial period of three years, the premiums are set at a uniform percentage of the payroll of each undertaking, irrespective of the branch of industry to which it belongs. Then, on the experience of the undertaking during the period, the premium is varied up or down, between limits (*e.g.*, between 4 per cent. and 0.5 per cent. of the payroll). The principle is clear: that each undertaking shall bear a large proportion of the cost of the benefits paid to its discharged workers. In the United States, the example of accident insurance has been decisive, for it has been thought that a close analogy exists between the accident risk and the unemployment risk: both are industrial rather than social risks, and the cost of compensation should figure in the operating expenses of the undertaking held responsible. The entire premium for unemployment insurance is therefore charged to the employer, and is varied according to the losses incurred by the insurance fund in respect of his workers. There is already a vigorous controversy in the United States concerning the propriety of experience rating in unemployment insurance, and numerous powerful arguments are marshalled against it. It would exceed the scope of this study even to enumerate these arguments here, but it is pertinent to observe that all schemes of compulsory unemployment insurance outside the United States have rejected experience rating, and have regarded unemployment as a liability to be shared by industry as a whole and by the State.

(3) FINANCIAL SYSTEM

A social insurance institution, unlike an insurance company, can generally count upon a permanent body of contributors and an unlimited life, so that it need not provide against eventual liquidation. Moreover, especially in long-term insurance, the rates of contributions and benefits under a social insurance scheme are established less rigidly than they are under a private insurance contract. But, in social insurance, as in private insurance, cash must be available to pay benefits as they fall due,

and the test of actuarial solvency at any date is the same, namely, the equivalence of the present values of probable revenue and expenditure.

The financial system of a social insurance scheme consists of the mechanism whereby an equilibrium is maintained between its resources and its charges. According to the nature of the risk and the benefit, it may be expedient to balance benefit expenditure by contribution income either over a short period or over a long, even indefinitely long, period. In any case the financial system should be such that the contribution rates should remain as steady as possible, or, if they have to be increased, that the increase should be gradual, in order that the contributors may have time to adapt themselves to the change. Since the correspondence in time between benefits and contributions can never be exact, a social insurance scheme must always provide for a reserve. The financial systems used in social insurance schemes belong to two principal types: the assessment system and the accumulation system.

The assessment system aims at maintaining a current equilibrium between income and outgo by the adjustment of contributions or, occasionally, of benefits. The adjustment is effected annually or at longer intervals. The system requires the maintenance of a contingencies reserve in order to moderate the fluctuation of the contribution rate.

The accumulation system is used wherever an insurance scheme provides for benefits the cost of which is calculated to increase year by year over a long period, and it is desired to meet the cost by a contribution which remains level throughout the period. Part of the contribution is used, as in the assessment system, to pay benefits at the level attained immediately after the inception of the scheme and to provide a contingencies reserve. The surplus contribution revenue in the earlier years is accumulated to form an actuarial reserve, the interest on which meets the deficiency of the contribution revenue in the later years. The adoption of the accumulation system does not secure that the contribution will not be varied in the course of the period covered by the calculations, but only that it will not be raised to meet such part of increasing expenditure as can be forecast. The accumulation system is an assessment system that has added to it a mechanism for methodical saving.

It is in the size of the reserve and in the part that it plays that the two systems mainly differ. In the assessment system the purpose of the reserve is to meet, by a capital payment, any unforeseen and exceptional excess of outgo over income,

and the interest which the reserve fund supplies is of quite secondary importance. In the accumulation system, on the other hand, the function of the reserve is to earn interest, and, as it accumulates, to cover an increasing share of the total expenditure, the increase being due, not to chance, but to an expected growth in the rate of benefit or in number of beneficiaries or to both. The ultimate reserve, in order to provide a substantial interest income, must evidently be large as compared with the premium income.

Sickness insurance everywhere is financed on the assessment system. This is so even where sickness and pension insurance are co-ordinated within the same legislation, for the two branches are kept financially separate, sickness insurance being assigned a definite part of the total contribution; only in Great Britain, where health insurance provides incapacity benefits without limit of time, is the accumulation system used. It may indeed be said that the benefits of sickness insurance are designed in such a way as to render the use of the assessment system appropriate. The mutual-aid movement, from which compulsory sickness insurance is derived, was carried on by small local societies that could operate only on an empirical basis, providing benefits of limited duration and balancing their accounts from year to year. Modern sickness funds, of course, have more refined methods of keeping income and outgo in equilibrium. The number of days of sickness per member per year varies but little in a large fund. Even in a small fund of a few hundred members a reserve equal to one year's expenditure is in almost all countries judged to be ample. Such a reserve, of course, can only be built up gradually, by allotting to it a margin — *e.g.*, 5 or 10 per cent. — allowed for in the contribution or, if the whole margin is not available, then whatever surplus the year's working may leave. Until the reserve is constituted, the contribution rate is more often subject to upward variation, and the grants for benefits additional to the minimum which the law prescribes are restricted. Later, the contribution may remain regular from year to year, except in so far as the fund in the exercise of its autonomy decides to finance additional benefits, not out of surplus, but by raising the rate of the normal contribution. In several countries the contribution rate is uniform, and a legislative amendment is necessary in order to alter it. Such regularity is made possible by the complete financial centralisation of sickness insurance (*e.g.*, Chile, Peru) or by the creation of a central reserve common to all the sickness funds (*e.g.*, France, Rumania). Here the assessment system means

hardly more than the periodical checking of a financial equilibrium which is inherently stable.

In unemployment insurance also the assessment system must be used, because its financing is necessarily empirical. Despite the restriction of the duration of benefit in proportion to the duration of previous insurance, unemployment insurance schemes cannot forecast with even moderate precision the movement of expenditure. A forecast is nevertheless made on the most reasonable hypothesis that can be formulated, and the contribution is set at a rate which is intended to leave a margin for the accumulation of a reserve. In several laws it is provided that the contribution rate may be varied by a summary procedure without recourse to legislation, and, in case of urgent need, loans or even non-repayable subsidies may be granted by the State.

Accident insurance uses a distinctive form of the assessment system. Here as exact a balance as possible is established at the end of every year between the premiums due from the group of undertakings comprised in a certain risk class and the liabilities incurred by the accident fund in respect of accidents happening in those undertakings through the year. Where the insurance is of a mutual character, a provisional premium is paid at the beginning of the year and an adjustment is made at its end. The liabilities to be discharged by the premiums include, not only actual disbursements, but also the capital value of pensions awarded; except for cases not yet settled, each year's working is financially independent.

For pension insurance the appropriate financial system may be either that of assessment or that of accumulation. The choice depends on a number of considerations, of which the chief are the probable movement of the pension cost and the scope of the insurance scheme. The assessment system may be used if the ultimate pension expenditure will not exceed the income yielded by the maximum contribution that can reasonably be fixed for pension insurance. In the contrary case, the accumulation system must be adopted. The scope of a pension scheme affects the measure in which it is feasible to apply the accumulation system, because the interest on the reserve, in order that it may relieve the charge on the current contributors, can only be paid by other members of the community with whom the reserve has been invested. Therefore a small scheme could accumulate a much larger reserve per member than a scheme which includes the great majority of the occupied population.

The first compulsory insurance schemes, in which pensions varied with wages and the duration of insurance, were financed on the accumulation system. The schemes were limited in scope and for this reason could not claim large subsidies from the public authorities; their costs were expected to rise rapidly owing to the increase in the number of pensioners and in the average value of the pension; their actuarial reserves were not of great importance as capital accumulations; and their investments entailed no risk of capital losses, while at the same time the yield was sufficient to keep contributions stable. Since other costs of production remained fixed, such stability was necessary in order to avoid the accusation that the insurance scheme generated dislocation and raised the costs of production.

All or nearly all these conditions are changed, if not reversed, in insurance schemes which are national in scope or compulsorily cover all or the greater part of the wage-earning population, and in which the benefits paid are uniform or vary only within narrow limits with the amount of the contributions paid and the duration of insurance. When in these schemes the claim to a pension is made subject to a comparatively short qualifying period, the number of pensioners becomes constant in a comparatively few years' time, and thenceforth the costs of the scheme increase only at a moderate rate. It is evidently possible to finance such schemes on the assessment system, especially if an improvement in the productive efficiency of industry can be counted upon that will remove from future generations the hardship of paying a somewhat higher contribution. Indeed, even if the average rate of benefit is planned to increase with the passage of time, the financing of a scheme that covers the mass of the occupied population on the accumulation system is likely to lead in a roundabout way to the assessment system; for a considerable proportion of the actuarial reserves will very probably be "invested" in government securities, the interest on which is necessarily paid out of taxation. It is true that even in a national scheme the incidence of taxation is likely to differ from that of contributions and to fall more largely on the well-to-do; but if so, the interest charge will correspond to the State subsidy which is a normal feature of pension insurance.

But this line of argument does not apply to insurance funds which are limited to certain occupations or groups of occupations and whose annual expenditure is bound to increase rapidly in consequence of the additions to the ranks of pensioners and of the structure of the pension system. Without the income drawn from the investment of actuarial reserves, there would

have to be rapidly rising, and ultimately prohibitive, contributions. The guarantee of public subsidies would often prove illusory, since the members of occupational funds are already in a privileged position as compared with the mass of industrial and agricultural workers. In insurance schemes which are limited to certain occupations or groups of occupations, yet another difficulty arises, when it is decided that in calculating pensions account shall be taken of periods of service preceding the putting into operation of the scheme, and therefore not having given rise to the payment of contributions. Besides the unfavourable age distribution of the first contingent of insured persons, there is then a second source of actuarial deficit; which must be paid off over a specified period and not transferred in full to future generations. In any case it is necessary to know the dimensions of this deficit, to reduce it to bearable proportions, and therefore to regulate the extent to which periods of employment preceding the operation of the insurance scheme are taken into account, due respect being paid to the principle of individual equity, according to which the insured person, present or future, receives benefit at least equivalent to his personal contributions.

CHAPTER III

SOCIAL SECURITY SYSTEMS

A. The Elements : Social Assistance and Insurance

Social security is the security that society furnishes, through appropriate organisation, against certain risks to which its members are exposed. These risks are essentially contingencies against which the individual of small means cannot effectively provide by his own ability or foresight alone or even in private combination with his fellows. It is characteristic of these contingencies that they imperil the ability of the working man to support himself and his dependants in health and decency. Accordingly, as the State is an association of citizens which exists for the sake of their general well-being, it is a proper function of the State to promote social security. While all State policy has some bearing on social security, it is convenient to regard as social security services only such schemes as provide the citizen with benefits designed to prevent or cure disease, to support him when unable to earn and to restore him to gainful activity. Not all such measures, however, can be considered as affording security. For security is a state of mind as well as an objective fact. To enjoy security, one must have confidence that the benefits will be available when required, and, in order to afford security, the protection must be adequate in quality and quantity.

Neither of these conditions is realised in poor relief, society's ancient mode of covering social risks. For poor relief, though it may be, in principle, an obligation for the local community, is not a right for the individual: the communal authority is sole judge of the necessity for relief and of its nature and extent in each case, and the claimant, save in a few countries, cannot appeal to a higher authority. In fact, poor relief is very often inadequate in quality because the local community affords too small a basis for a system of diversified benefits, while the quantity of the relief depends in each community on the accidents of its politics and wealth.

In order to remedy these deficiencies of poor relief and supply, at least in some fields, the social security that was lacking, two approaches have been found and are being followed, namely social assistance and social insurance.

There is no generally accepted definition of social assistance or social insurance, but for certain schemes there is universal agreement as to the category to which they belong. The Danish non-contributory pension scheme and the German wage earners' pension insurance scheme are classic examples of social assistance and social insurance respectively. A consideration of their resemblances and differences brings out the central characteristics of the two approaches. Both schemes are intended for persons of small means: the Danish scheme provides for a means test at the time when the claim for a pension is made, while the scope of the German scheme is limited to workers whose earnings are presumably small. Both grant pensions calculated according to arithmetical rules, as of right, enforceable by quasi-judicial process. The Danish pension is adjusted to the individual's means above a certain level of exemption, so as to produce a total income covering the minimum cost of living, while the German pension consists of a small fixed subsidy plus a supplement proportional to the amount of the contributions paid in respect of the individual. The cost of the Danish scheme is charged to the general tax revenue of the State and the local authorities, while that of the German scheme is borne in part by insured persons and employers, sharing a joint contribution, and in part by the State. The main differences between these schemes concern therefore the techniques for excluding persons with substantial means from benefit, without discouraging private thrift, for calculating the pension and for raising funds. Generalising from these examples, one might say that a social assistance scheme provides benefits for persons of small means granted as of right in amounts sufficient to meet a minimum standard of need and financed from taxation, and that a social insurance scheme provides benefits for persons of small earnings granted as of right in amounts which combine the contributive effort of the insured with subsidies from the employer and the State.

These descriptions characterise well enough the purer types of social assistance and social insurance, but they are too detailed when it comes to assigning, each to its proper category, the rich variety of modes of collectively bearing social risks which are included between the extremes of poor relief, on the one hand, and private insurance, based on strict actuarial equity

to the individual, on the other. For example, it is usual to regard industrial accident insurance as a branch of social insurance, although the insured person does not contribute, and a scheme of maternity benefits, financed entirely from taxation, as a species of social assistance, even if it is available to all women irrespective of means. Thus, neither a contribution from the beneficiary nor the means-test is a characteristic of social insurance or of social assistance respectively. In fine, the only criterion which enables us to distinguish between these two modes of collective risk-bearing is the presence or absence of the requirement, as a condition for the grant of benefit, that contributions should have been paid, by the prospective beneficiary, or in his name, into the fund which supplies the benefit. Even this requirement, however, is not absolute. In the social insurance system of the Soviet Union and in the workmen's compensation schemes of many countries it is expressly provided that failure of the undertaking to pay the contribution due shall not affect the right of the insured person to benefit.

It is helpful, in order to elucidate the nature of social assistance and social insurance, to consider them as tendencies, that is to say, as directed movements. Social assistance is a progression from poor relief in the direction of social insurance, while social insurance is a progression from private insurance in the direction of social assistance.

The progress of social assistance consists in the improvement of its benefits, in the enlargement of the notion of need, and in the dissociation of moral stigma from recourse to its aid. All three ends are served by the creation of specialised schemes to help each of the main categories of needy individuals or to combat each of the main causes of destitution. Specialisation implies an administration seeking excellence in its own field: aiming at adequacy in quality and quantity; serving, without narrow restriction, all who cannot obtain privately such benefits as it affords; and, in its visible separation from the poor relief authority, symbolising a constructive and humane attitude towards poverty. Where cash benefits are in question, an important index of advance in social assistance is the substitution of rule for discretion in the determination of their amount, and the consequential emergence of a right to a definite sum. The case is different with benefits in kind or services: here quality and quantity must always remain very largely within the discretion of the administration. But these improvements, though they yield a rich return, are expensive. Social assistance schemes are at the mercy of budget appropriations, which, in some countries,

are subject to great irregularity. They press therefore for the assignment to them of an independent revenue — perhaps from a new tax, which is the more readily accepted the more generally its destination is understood and approved.

The progress of social insurance consists in extending its protection to an ever larger circle of the population, in widening the range of the risks that it covers, and, as regards the quality and quantity of its benefits, caring more for social adequacy than for actuarial equity. Whether voluntary insurance, subsidised by the State or by employers, is a species of social insurance is nowadays an idle question: it is certain at all events that voluntary insurance can play no more than a secondary part in an effective social security system. Until lately the potential scope of social insurance has been identified with employed persons and their dependants — already the majority of the population in industrialised countries — but this limitation is being transcended. In several countries, indeed, all citizens have been brought within the ranks of the insured, at least for the purpose of pension insurance. In countries where social insurance is intended to be the principal element of the social security system, qualifying conditions for benefit are made easier, the minimum rate of benefit is strengthened, and more extensive provision is made on behalf of dependants. Improvements in benefits and the readjustment of benefits to meet the needs of the lower income groups are charged mainly to the State, since it is understood that the contribution paid by the insured, like a regressive tax, bears more hardly on the poorer contributors, while the employer's contribution is a tax on employment.

If present-day developments have been correctly read, social assistance and social insurance are moving ever closer to each other. As the culmination of a long evolution they may even meet and combine; until, as in New Zealand and Denmark, we can no longer say whether social assistance or social insurance predominates, but only that they possess a national system of social security.

B. The Distribution of Functions

All the social risks — incapacity for work, inability to find work, need for medical care, etc. — can be covered either by social insurance or social assistance. In practice, however, certain risks are usually covered by insurance, and others are generally regarded as the special province of assistance, while for

a third group it seems that either method may be the more suitable according to the conditions of the country concerned. It may be said that cash benefits and general medical services are more often provided by the insurance method, and that assistance is preferred for certain forms of benefit in kind.

Insurance is always adopted wherever there exists an apprehension of exaggerated claims and conscienceless exploitation of a common fund, even if insurance means a somewhat less extensive coverage of the risk: it must be adopted if the cash benefit is to be proportioned to the wage loss. As regards industrial accident and disease, no question of assistance has ever arisen, by reason of the firm tradition of employers' liability. The general risk of sickness is invariably covered by insurance: here also tradition has been decisive, and the forms appropriate to voluntary insurance, with its contractual arrangements with private practitioners, have been carried over into compulsory insurance. In the case of pensions, especially for the aged, the choice between insurance and assistance has been hard to decide. Reverting to our Danish and German models, we may note that Denmark was thinking mainly of a peasant population, in which the aged were represented in a normal proportion, while Germany had in mind a new class of industrial wage earners, with most of their working life still before them. Apart from the fact that they solve the immediate problem of existing needs, non-contributory pensions have been the more readily adopted because the situations in respect of which they are paid are fairly easily verified. However, the majority of countries have opted for pension insurance, with its long-term financial plan and its pension related to the contributive effort of the individual. As for the unemployed, they have had the misfortune to inherit some of the odium which traditionally attached to the masterless man, and only with the greatest reluctance have cash benefits been paid to them out of public funds. Schemes of unemployment assistance were improved in the early thirties, but they are being or have already been replaced by insurance schemes, at least as a first line of defence.

Social assistance has, in the main, confined itself to spheres of service in which the public interest is pre-eminent, and which at the same time offer little occasion for abuse. As important examples may be cited general hospitals, mental hospitals, tuberculosis sanatoria and dispensaries, treatment centres for venereal diseases, maternity and child welfare centres, school health services, placement and rehabilitation agencies. These services are provided under similar conditions for all clients, but a

contribution towards their cost is, in many instances, required from those who have sufficient means, especially for such a costly service as hospital treatment. In some countries a general medical service, subsidised or wholly maintained from taxation, is provided for the rural population.

The social security system of a country consists of the complex of its social insurance and social assistance schemes. In very few countries does that system approach comprehensive-ness, with respect to persons and risks. Its incompleteness arises from the very natures of both its elements. An insurance scheme, by hypothesis, can grant benefits only in the presence of certain precisely defined conditions, and cannot help the excluded fringe of cases. Social assistance schemes, as we know them, result from the selection of certain categories of need for specialised care; these categories are removed one by one from the competence, or rather incompetence, of poor relief. Some emergencies are bound to fall outside the limits of all the categories for which special schemes have been established, though social assistance is more elastic in its adaptation to uncommon cases than social insurance.

A diminishing residue of need is left to be covered by the poor law. It consists of the "deserving" and "undeserving" poor. The former are where they are because of the imperfections of the social security system, and the latter for causes as yet not fully diagnosed, but which in part involve the responsibility of society as a whole. The gaps in the social security system through which the "deserving" poor fall into the inhospitable but inclusive embrace of the poor law will gradually be closed. The poor law remains with its old deterrent character for the "undeserving" — the loafer, the tramp, the unemployable with character defects — pending the development of a casework system on behalf of this group.

C. Examples of Co-ordination and Integration

It is true of most countries that their social security systems — such as they are — have been built up piece by piece, and not according to a comprehensive plan: no other process of creation would be natural except where, as in the Soviet Union, society is reconstructed entirely on a new principle. But though a comprehensive plan is lacking, some regard is always paid to existing institutions when the creation of a new one is under consideration: that is co-ordination in its most elementary form. Co-ordination, however, remains inefficient and unsystematic

until the legal provisions of neighbouring schemes are fitted into one another and administrative links are established between them. When this process of organic co-operation is entered upon, the question inevitably arises : are two (or more) schemes necessary, or expedient in the public interest, to perform the related functions distributed among them, or can they be combined to the general advantage ? If the answer is yes and action follows, the result is integration. The problems of co-ordination and integration arise as between one social insurance scheme and another, one social assistance scheme and another, and as between a social insurance scheme and a social assistance scheme. The situations in which such problems present themselves are endless in their variety. The difficulties of co-ordination are due only in part to the necessity for discriminating at some arbitrary point between one category of need and another : they are due also to the different conceptions on which neighbouring schemes are based, and to the resistance of these schemes to a theoretical case for fundamental reorganisation which would harmonise their relations. A few examples are given below of the situations and ways in which co-ordination or integration is achieved.

(1) BETWEEN INSURANCE SCHEMES

Since all branches of social insurance provide compensation for loss of earnings, it is expedient to establish rules that eliminate gaps between the risks covered by the several insurance schemes and determine the extent to which two or more benefits shall be payable in cases where simultaneous claims arise under different schemes. These questions are most important where the case is one of incapacity for work. As between accident insurance and sickness insurance both questions are usually settled by defining sickness as temporary incapacity that is not compensable under accident insurance ; but in several European countries (including the Soviet Union) they are avoided by the identification of the sickness benefit with the accident benefit for temporary incapacity. As between accident and pension insurance, considerable gaps exist by reason of the much stricter physical and other conditions that the latter imposes for the award of pensions. Overlapping occurs in cases of severe incapacity, old age and death, and national systems exhibit diverse policies as regards this situation : in several countries the pensions under both schemes are paid in full, and in others the beneficiary receives the entire accident pension and part of his contributory pension.

The co-ordination of the medical benefits of different branches of social insurance is mainly a matter of avoiding duplication of medical facilities. As regards the medical benefits of accident and sickness insurance, there is no overlapping of rights if each risk is defined so as to exclude the other : what may occur, however, is a duplication of medical organisation. When, as is normal if liability for accident compensation rests on the employer individually, no special organisation exists for the treatment of accident cases, then of course duplication cannot occur. But where the accident risk is covered by a branch of social insurance, systematic provision must be made in some form for medical care. In Germany, for example, accident victims receive the medical benefit of sickness insurance in so far as that is sufficient and appropriate, but since accident insurance has both the means and the will to effect the fullest possible cure, it supplements that medical benefit by specialised services of its own in cases where these are indicated. In Germany and several other European countries, a somewhat similar co-ordination is established between the medical benefits of sickness insurance and the special forms of treatment which, at their own discretion, pension insurance institutions may provide for the prevention of invalidity ; pension insurance may even assume entire responsibility for diseases such as tuberculosis which cause much invalidity. Where, as in the plan which Czechoslovakia was the first to adopt, sickness insurance funds are subordinate to the central institution which administers pension insurance, the medical benefits of sickness insurance and pension insurance are the integral parts of a whole. In Rumania there is even a common medical organisation for sickness, accidents and invalidity.

The adoption of an identical formula for the definition of their scope enables different branches of social insurance to simplify their administrative machinery and the procedure to be followed by employers in paying contributions and by insured persons in exercising their rights. The simplification is especially evident in the collection of contributions. In many countries (Chile, Czechoslovakia, France, Great Britain, Peru, etc.) the contributions of sickness and pension insurance are collected as a single amount. In Poland and Rumania there is an inclusive contribution for these two branches and accident insurance as well. After collection the inclusive contribution is shared out among the different institutions or accounts in the proportions that the law prescribes. There are many other departments of administration in which different branches use a common service,

controlled by a central policy-making authority to which all are subject; such common services include tribunals for the settlement of disputes and (in Poland, Rumania and the United States) research in social insurance problems.

(2) BETWEEN ASSISTANCE SCHEMES

The personal health services provided by way of social assistance are, in the great majority of countries, administered by local authorities, those services especially which involve individual care or the employment of a specialised staff being usually furnished by the larger local authorities, such as cities, counties or provinces. The latter generally possess a health department in which all public activities in the fields of medicine and hygiene are integrated. Cash benefits by way of social assistance consist in the main of non-contributory pensions and these are, in most of the countries where they exist, administered by the State. Responsibility for poor relief in the form of maintenance and elementary medical care is assigned to the small or medium-sized local authority, which discharges it through a committee of its council.

Co-ordination between the poor relief authority and the health authority in the same locality is a simple matter of financial and administrative arrangement concluded in accordance with broad statutory principles. In some countries, such as Belgium, personal health services and poor relief are administered by the same local boards.

Under most schemes of non-contributory pensions, no provision is made for the medical needs of the beneficiaries, who obtain publicly provided health services under the same conditions as all other individuals of similar economic status, though in Australia, Great Britain and France the scheme expressly provides that while the pensioner is being treated in hospital the rate of the pension shall not be reduced on that account. A number of the State laws on old-age and mothers' pensions in the United States enable the pension authority, namely the State department of public welfare, to furnish medical care for the pensioners.

In countries where several types of non-contributory pension schemes are in force — for the aged, invalid, blind, and dependent children — they are administered by the same State department (just as in pension insurance the same institution administers invalidity, old-age and survivors' pensions).

In Great Britain an odd situation has developed in which one form of old-age assistance is superimposed on another: both are

State services, yet administratively they are quite independent. This set-up becomes intelligible, however, when seen against its historical background. Non-contributory old-age pensions were never intended, either at the time of their introduction in 1908, or later, in 1925, when they were embodied in an insurance scheme for the employed class, to be sufficient for maintenance : the theory was that they should afford a substantial basis to be supplemented by private thrift or poor relief, as the case might be. At present the majority of old-age pensioners are receiving their pensions in their capacity as insured persons and without a means test, and only a dwindling minority are receiving them in the form of social assistance, subject to a means test. In 1940 it was decided to free the aged as a group from dependence on poor relief, and a State scheme of old-age assistance was introduced, primarily for the purpose of supplementing the pensions of insured persons, but incidentally granting the same advantages to non-contributory pensioners also. Now the purpose of the supplementary pensions was to assure a minimum of subsistence to every aged individual, and there already existed a State scheme of unemployment assistance performing the same function for the benefit of the unemployed. The latter had established an elaborate set of rules and policies for the uniform application of the unemployment assistance scheme, and possessed the local machinery necessary for the examination of claims and the payment of benefit. In these circumstances it was more expedient to attach old-age assistance to unemployment assistance than to non-contributory pensions. In fact old-age assistance and unemployment assistance have been integrated in the hands of a national assistance board.

(3) BETWEEN INSURANCE AND ASSISTANCE SCHEMES

The creation of a social security system is, nearly everywhere, a gradual process, in which simultaneous use is made of social insurance and social assistance, the choice of method for a given purpose being determined by its appropriateness to national conditions. The goal is the provision of complete and continuous services : there should occur neither gaps nor overlapping in the range of the services or in their temporal disposition.

In most countries social assistance is the auxiliary of social insurance. It has to provide necessary benefits in kind which the insurance scheme does not afford, substitutes for insurance benefits when the individual does not fulfil the qualifying conditions or has exhausted his rights, and supplements to

the cash benefits of insurance where these do not meet the individual's needs. In order that these purposes may be accomplished, co-ordination is required between insurance and assistance, both in the mapping out of their functions and in the details of their contacts; often, however, co-ordination goes no further than the designation, in general terms, of the field for which each scheme is competent.

Social assistance is largely concerned with health services: hospitals, sanatoria, maternity and infant welfare centres, etc. Sickness insurance in most countries contracts with public hospitals to provide accommodation, but where there is a deficiency of public hospitals the social insurance institution — Peru affords a signal example — may build hospitals for its members. In two countries, namely the Soviet Union and Ireland, there is no insurance medical service: the insurance institutions neither employ doctors to treat insured persons nor contract with the public health authorities to do so, but insured persons, like other groups of the population, avail themselves of the free medical services that the public health authorities of these countries provide. The insurance institutions confine themselves to the certification of incapacity and the grant of certain supplementary benefits such as rest cures. There is an important difference, however, between the free medical services in the two countries, in that those of the Soviet Union are, since 1937, available to all persons regardless of their means, whereas in Ireland only persons who cannot buy the care they need may use them.

The social insurance system of the Soviet Union affords a unique illustration of collaboration between the social insurance and social assistance organisations in the application of pension insurance. As a feature of the reconstruction of that system in 1937, the financial and administrative responsibility for invalidity, old-age and survivors' pensions has been transferred from the insurance institutions, that is to say the trade unions, to the State Commissariats of Social Assistance and their local branches. The pensions, as before, are based on the nature of the work performed by the individual, the duration of his employment and the average wage on which contributions were paid during the last 12 months of employment. The transfer was facilitated by the fact that the insurance contributions are paid entirely by the undertakings; for, the latter being publicly owned, it is essentially a matter of bookkeeping whether the cost of the pensions should be treated as a charge on the expenses of the undertaking or on the State and local budgets. One of the purposes of the transfer appears to have been to simplify the

social insurance functions of the trade unions so that they could be discharged effectively by elected committees in each undertaking. These functions are now limited to the assessment of cash benefit for temporary incapacity, the maintenance of insured persons and children in rest homes and sanatoria, checking incapacity certificates, and helping insured persons to obtain proper medical care from the public health authorities and pensions from the social assistance authorities.

The provision of assistance benefit as a substitute for insurance benefit is most prominently exemplified in the field of old-age security. In France, Great Britain and the United States, there are non-contributory pensions for persons who are not insured, or who are insured but fail to satisfy the qualifying conditions for the contributory pension.

The benefits of sickness insurance and unemployment insurance are payable for a maximum term only: thereafter, in most countries, the sick person becomes the responsibility of invalidity insurance, but the unemployed must turn to poor relief. In Denmark, contrary to usual practice, there is no automatic transition from sickness to invalidity. The awarding of an invalidity pension is a rather elaborate affair, and, in cases where permanent invalidity is not expected to result, it is found preferable to have the benefits of sickness insurance continued as assistance benefits, by the sickness fund at the expense of the commune. Great Britain is one of the very few countries in which the entire wage-earning class is protected in case of unemployment, however long it lasts: insured persons who have exhausted their 26 weeks of insurance benefit (and likewise the relatively small group of uninsured wage earners) have a right to an assistance benefit adjusted to their family responsibilities and to their means, of which certain items, including war savings, are ignored. In unemployment assistance (as also in the supplementary old-age assistance already referred to) the aim has been to conciliate the idea of assistance as a right, which implies a definite rate of benefit, with the idea of assistance as meeting the minimum needs of the individual concerned, by prescribing a very detailed table of possible family sizes, personal means and appropriate benefit rates.

The integration of social insurance and assistance within a single scheme yields advantages in the way of simplicity and security for the insured and economy in administration. The main obstacle to integration is that, in most countries, the scope of insurance is limited to employed persons, while that of assistance extends to all persons in need of its services. When,

however, insurance is national in scope, and embraces all adults and their children, this obstacle disappears.

In Sweden, the national pension scheme provides a pension based on the contribution record of the insured person and, in necessitous cases, a supplement subject to a means test.

The integration of social insurance and assistance institutions providing health services under single national direction seems about to be accomplished in Chile. Until the present time, the social insurance institution was responsible for the dispensary and domiciliary service and the national welfare institution for the hospital service. But the experience gained in administering an emergency relief programme in the earthquake area has demonstrated the advantages, in the way of continuity of treatment and economy in staff and equipment, that undivided responsibility affords. It is now proposed therefore that the insurance and the assistance institutions should pool their resources and create a single national medical service; at the same time the scope of compulsory insurance would be extended to all gainfully occupied persons of small or moderate means. In Denmark and New Zealand the existence of a national insurance scheme providing a full range of health services has not entailed destruction of the independence of hospitals or the enrolment of the medical profession in a salaried service; in Denmark medical and hospital benefits are furnished by contract between sickness funds and the doctors and hospitals, while in New Zealand the social insurance fund pays the doctors and hospitals for the services they render according to a statutory scale.

Old-age pensions, formerly non-contributory, have been integrated with other contributory pensions in the social insurance systems of Great Britain and Denmark (cf. Chapter I). Because the British social insurance system is limited to employed persons, the non-contributory pension scheme has been maintained for the protection of the uninsured, but in Denmark all adults are required to insure themselves against sickness and invalidity, and the old-age pension is granted only to persons who are in fact insured.

In New Zealand a social security system has been created by bringing together a series of social assistance schemes that provided old-age, invalidity and survivors' pensions, unemployment benefit and family allowances, and adding sickness benefit and all forms of health benefits. Every permanent resident in the country is entitled to these benefits, and all must pay a special contribution at the rate of 5 per cent. of income; about

one-third of the cost of the scheme is defrayed from general taxation. Most of the cash benefits are granted subject to a means test, which is so high, however, that it affects only the middle classes and excludes only the well-to-do. The cash benefits vary according to the number of the dependants of the breadwinner concerned, and bear no relation to his former earnings. The health benefits are freely available to all individuals, irrespective of means.

It is clear that in New Zealand we are faced with a social security system of a unique and novel character. It assures a minimum of subsistence to every citizen and his dependants in any emergency which may deprive them of their livelihood, and also a complete range of health services. All expenditure is defrayed from the social security fund, which is mainly fed by contributions. While the contributions are proportional to income, cash benefits vary with need. The system is a very full realisation of the idea of social solidarity. It is not an insurance system by any ordinary criterion. In private insurance there must be equity in the contribution-benefit relation: the individual is assigned, on entering insurance, to the appropriate group, homogeneous with respect to the risks its members represent, and pays the corresponding contribution. But what if insurance begins to grant benefits to the individual at birth, and only begins to levy a contribution when he attains manhood? Then all inequalities due to heredity and environment are discounted in advance, and the contribution corresponds to the average risk of all individuals: the principle of equity is preserved.

* * *

With these illustrations of the integration of social insurance and assistance in a coherent system of social security, we have brought this essay to its close. In keeping with the limited purpose assigned to it, as a preface to the consideration of the place of social security in post-war reconstruction, the survey has not ventured beyond the realm of fact — of schemes whose feasibility has been tested by experience.

The statesmen responsible for the fate of the nations united in the defence of freedom and of a civilisation based on respect for human personality have already named social security among the first objectives of post-war policy. Our review has shown that countries have dispersed responsibility for meeting

social needs among a multitude of agencies, without much regard for plan or order, and has given the measure of what must still be done to establish a system affording reasonable security for all who need it.

The scope of the present study did not allow of a comprehensive examination of social security policy. It must suffice to observe that the structure of society is consolidated and improved by the elimination of the causes of social insecurity, through systematic prevention of the occasions of need, and by the removal of fear for the morrow through the provision of benefits, adequate in quality and quantity, for those emergencies which elude prevention.

Social security policy can only be planned as part of a larger programme which includes measures for promoting employment and maintaining it at a high level, for increasing the national dividend and sharing it more equitably, for improving nutrition and housing, multiplying facilities for medical care, and widening opportunities for general and vocational education. Social security services are advantaged by economic adjustments that make for the expansion of employment and for the distribution of income in such a way as to procure the essentials of decent living, with due consideration for family charges. Such adjustments render it easier to finance social security services, for they not only keep benefit expenditure within bounds, but also tend to reduce it, since improved conditions of life and labour reduce the frequency and severity of social and industrial risks. But the most far-reaching economic adjustments and the most active prevention will not avail to abolish entirely the hazards of unemployment and incapacity resulting from disease or injury, and the dependency of the aged and the family deprived of its breadwinner. As a preliminary to any planning of social security services for a post-war economy, it is useful, if not indispensable, to glance at the essential data yielded by experience and at the present stage of development. It was with the need for a rapid survey in mind that this essay was written.

APPENDIX

Resolution on Aims and Functions of Social Insurance

(adopted by the Second Labour Conference of the American States which are Members of the International Labour Organisation. Havana, Cuba, December 1939.)

The Second Labour Conference of the American States which are Members of the International Labour Organisation :

Considering that the moral and material welfare of national communities and the full development of their economic resources and of their physical and mental potentialities cannot be attained unless the security of health and livelihood of the workers is organised ;

Convinced that compulsory social insurance is the most rational and efficient means of providing the workers with the security of health and livelihood to which they are entitled ;

Desiring to contribute to the development and general extension of social insurance in the American States, which are all concerned to increase their production, and to raise the standard of living and biological value of their workers in town and country ;

Expressing the common will of the American States to achieve justice and social progress, and inspired by the social insurance regulations established by the International Labour Organisation on the basis of an experience already lengthy and carefully tested ;

Adopts the following resolution, in order to give expression to the needs and aspirations of the American States, and to promote the rapid and sound development of a well-directed system of social insurance.

AIMS AND FUNCTIONS OF SOCIAL INSURANCE

(1) Social insurance schemes, which must make the most rational and economical use of the resources at their disposal, are called upon :

(a) to organise the prevention of such contingencies as sickness, invalidity and industrial accidents, the occurrence of which deprives the worker of his earning capacity and means of subsistence, causes suffering and loss to the worker and his family, and diminishes the productivity of the community ;

(b) to restore as quickly and fully as possible the working capacity lost or reduced by reason of sickness or accident, and to facilitate the accomplishment of the function of maternity, essential both biologically and socially ;

(c) to supply the means of subsistence necessary in case of cessation or interruption of gainful activity as the result of sickness or accident, temporary or permanent invalidity, unemployment, old age, and premature death of the breadwinner.

(2) As against other methods of collective provision, such as social assistance or schemes of non-contributory pensions, financed entirely out of public funds (which may, however, be the only feasible way of caring for existing cases of need), compulsory social insurance offers substantial advantages :

(a) it associates the workers concerned, from whom a contribution is required, both materially and morally in the protection of their health and their working capacity ;

(b) it implies the establishment of autonomous insurance institutions, dedicated solely to the organisation of prevention and the service of medical and cash benefits ;

(c) it grants benefits in virtue of definite rights, and thus preserves the self-respect of the beneficiary, who is secured against arbitrary decisions on the part of the body responsible for awarding benefits ;

(d) it guarantees the payment of benefits by the assignment of specific resources, and by distributing the cost over long periods in accordance with the rules of actuarial science.

(3) Health security calls for the application of a co-ordinated system of benefits in kind designed to make available to insured persons and their families the resources of modern medicine for the preservation of their health, and for the detection and treatment of disease in its earliest stages. For this purpose the insurance scheme must grant the following benefits, in so far as they are not provided by a public medical

service which is generally accessible: general medical care; supply of medicines and curative appliances; necessary surgical operations and services of specialists; assistance at confinement; dental treatment; necessary facilities for treatment in hospitals and curative establishments.

While providing efficient care for the individual, insurance schemes must, in the interests of the group which they serve, share in the campaign against diseases which are particularly frequent in the insured population, and which cannot be combated or prevented by medical treatment alone, but call for systematic preventive action combined with medical and social measures. Insurance schemes participate likewise in general preventive measures, and contribute to the improvement of the housing conditions of the insured population.

(4) The cash benefits of insurance schemes secure the maintenance of the insured person and his family in case of incapacity for work resulting from sickness or accident, and in the case of unemployment. In order to increase the economic security of the workers, it is necessary to institute, for the invalid and aged, and for widows and orphans, pensions which take account of the ordinary standard of living and of the family responsibilities of the pensioners, and which may not, in any case, fall below a prescribed minimum.¹



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